

GRAVES COUNTY SCHOOL DISTRICT

**BASIC FINANCIAL STATEMENTS,
SUPPLEMENTARY INFORMATION,
AND INDEPENDENT AUDITOR'S REPORTS**

Year ended June 30, 2012

GRAVES COUNTY SCHOOL DISTRICT

TABLE OF CONTENTS

YEAR ENDED JUNE 30, 2012

	<u>Page</u>
Independent Auditor's Report	1-2
Management's Discussion and Analysis	3-7
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets	8
Statement of Activities	9
Governmental Fund Financial Statements:	
Balance Sheet – Governmental Funds.....	10
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets.....	11
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds.....	12
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	13
Proprietary Fund Financial Statements:	
Statement of Net Assets – Proprietary Funds.....	14
Statement of Revenues, Expenses and Changes in Net Assets – Proprietary Funds	15
Statement of Cash Flows – Proprietary Funds	16
Fiduciary Fund Financial Statements:	
Statement of Fiduciary Net Assets – Fiduciary Funds.....	17
Statement of Changes in Fiduciary Net Assets – Fiduciary Funds.....	18
Notes to the Basic Financial Statements	19-35

GRAVES COUNTY SCHOOL DISTRICT

TABLE OF CONTENTS - CONTINUED

YEAR ENDED JUNE 30, 2012

Required Supplementary Information:

Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund	36
Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – Special Revenue Fund.....	37

Other Supplementary Information:

Combining Balance Sheet – Nonmajor Governmental Funds.....	38
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Governmental Funds	39
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Debt Service Funds	40
Combining Balance Sheet – School Activity Funds.....	41
Combining Statement of Revenues, Expenditures and Due To – School Activity Funds	42
Statement of Receipts, Disbursements and Due To – Graves County High School	43

Reports Required by the Single Audit Act:

Schedule of Expenditures of Federal Awards	44
Notes to the Schedule of Expenditures of Federal Awards.....	45
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <u>Government Auditing Standards</u>	46-47
Independent Auditor's Report on Compliance with Requirements that Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133	48-49
Schedule of Findings and Questioned Costs	50-54
Schedule of Prior Year Audit Findings	55

Management Letter Points:

Independent Auditor's Transmittal Letter for Management Letter Points.....	56
Management Letter Comments.....	57-59

INDEPENDENT AUDITOR'S REPORT

Kentucky State Committee for School District Audits
and Members of the Board of Education
Graves County School District
Mayfield, Kentucky

I have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Graves County School District as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Graves County School District's management. My responsibility is to express opinions on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the provisions of *Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*, and the audit requirements prescribed by the Kentucky State Committee for School District Audits in *Appendix I to the Independent Auditor's Contract – General Audit Requirements*, *Appendix II to the Independent Auditor's Contract – State Audit Requirements*, *Appendix III to the Independent Auditor's Contract – Audit Extension Request*, and *Appendix IV to the Independent Auditor's Contract – Instructions for Submission of the Audit Report*. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinions.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Graves County School District as of June 30, 2012 and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, I have also issued my report dated November 9, 2012, on my consideration of the Graves County School District's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of my audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 7 and 36 through 37, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. I have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Graves County School District's financial statements taken as a whole. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole.

A handwritten signature in dark ink, appearing to read "Kim Glavin". The signature is written in a cursive, flowing style.

Benton, Kentucky
November 9, 2012

**GRAVES COUNTY PUBLIC SCHOOL DISTRICT – MAYFIELD, KY
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)
YEAR ENDED JUNE 30, 2012**

As management of the Graves County School District (District), we offer readers of the District's financial statements this narrative overview and analysis of the financial activities of the District for the fiscal year ended June 30, 2012. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the audit.

FINANCIAL HIGHLIGHTS

- The beginning general fund balance for the District was \$2,182,365.
- The combination of all governmental and proprietary funds yielded \$42,686,125 in revenue (not including beginning balances), which primarily consisted of the state program (SEEK), property, utilities, in lieu and motor vehicle taxes. The combination of all governmental and proprietary funds yielded \$44,013,556 in expenditures. The ending unassigned fund balance for all funds was \$749,588.
- Property assessments generated on August 1, 2011 and then certified to the District Board of Education by the Commissioner, showed total real and personal property valuation at \$1,250,475,181 and motor vehicle valuation at \$186,963,328. At a real estate rate of 37.0 and personal property tax rate of 37.0 cents per \$100 of assessed property, the calculated collection would yield \$4,626,758. The vehicle tax rate of 46.4 cents is calculated to collect \$867,510.
- During FY12, the District received \$18,544,579 in state Support Education Excellence in Kentucky (SEEK) funds. This funding level will look odd when considering the state deductions for federal stimulus funding from both fiscal year 2010 and 2011 to relieve a statewide budget crisis and midyear SEEK revenue reductions of \$357,400 in 2011 and another \$400,816 in 2012. The guaranteed per pupil base received a modest \$35 increase, (from \$3,868 per student to \$3,903), but a 65 student drop in the average daily attendance resulted in a net base revenue loss of \$102,786.
- The SEEK calculation in FY12 funded transportation at only 61.7%. Diesel fuel expenses increased \$125,700, (36.7%) due to an anticipated spike in price. The cost of fuel will continue to be an issue in the near term as funds that would have been left in the contingency are diverted in the budget to cover fuel increases. Per bus replacement costs continue to rise. Bus purchases have become the short term relief valve to offset state and federal revenue losses. This cannot continue as the fleet continues to age.
- There were no salary increases during FY12 except for normal step increases and rank changes which will add approximately 1.5% to annual salary costs.
- FY12 experienced an increase in Kentucky Teacher Retirement expenses from .25% to .50% for all certified employees which increased payroll expenses \$64,554.15 in the general fund. This burden will double in FY13 to 1.0%; and increase to 1.5% in FY14; 2.25% in FY15 and 3.0% in FY16 when it is projected to cost the district in excess of \$500,000 in Fund 1 and Fund 2. This tax burden has been placed on all Kentucky Districts without hope of offsetting revenue and will result in personnel reductions.
- The General Fund received \$26,002,385 in revenue (excluding on behalf revenue), which primarily consisted of property taxes, state funding (SEEK), utility and motor vehicle taxes. This figure may appear odd before considering that federal stimulus programs in 2010 and 2011 were treated as a Fund 2 grant which distorts historical Fund 1 comparisons. Excluding inter-fund transfers and on behalf expenditures, there was \$27,075,534 in General Fund expenditures, resulting in an under-expenditure of \$927,120 for the current fiscal year.

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the district is improving or deteriorating.

The statement of activities presents information showing how the District's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The government-wide financial statements outline functions of the District that are principally supported by property taxes and intergovernmental revenues (governmental activities). The governmental activities of the District include instruction, support services, operation and maintenance of plant, student transportation and operation of non-instructional services. Fixed assets and related debt is also supported by taxes and intergovernmental revenues.

The government-wide financial statements can be found on pages 8 through 9 of this report.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. This is a state mandated uniform system and chart of accounts for all Kentucky public school districts utilizing the MUNIS administrative software. The District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the District can be divided into three categories: governmental, proprietary funds and fiduciary funds. Fiduciary funds are trust funds established by benefactors to aid in student education, welfare and teacher support. The only proprietary fund is our food service operation. All other activities of the district are included in the governmental funds.

The basic governmental fund financial statements can be found on pages 10 through 13 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found beginning on page 19 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$21,684,793 as of June 30, 2012. The largest portion of the District's net assets reflects its investment in capital assets (e.g., land and improvements, buildings and improvements, vehicles, furniture and equipment and construction in progress) less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to its students; consequently, these assets are not available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The District's financial position is the product of several financial transactions including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of capital assets, and the depreciation of capital assets.

A simple comparison of two years can be made to identify significant changes in the current year. The following provides that comparison:

<u>Net Assets as of June 30</u>	<u>2012</u>	<u>2011</u>	<u>Change</u>
Assets			
Current Assets	\$ 2,227,695	\$ 3,484,390	\$(1,256,695)
Noncurrent Assets	47,046,491	48,951,200	(1,904,709)
Other Assets	381,954	293,434	88,520
Total Assets	<u>\$ 49,656,140</u>	<u>\$ 52,729,024</u>	<u>\$(3,072,884)</u>
Liabilities and Net Assets			
Current Liabilities	\$ 2,721,835	\$ 2,676,188	\$ 45,647
Noncurrent Liabilities	25,249,512	27,233,124	(1,983,612)
Total Liabilities	<u>\$ 27,971,347</u>	<u>\$ 29,909,312</u>	<u>\$(1,937,965)</u>
Investment in capital assets (net of debt)	\$ 21,586,171	\$ 21,364,224	\$ 221,947
Restricted	908,522	910,416	(1,894)
Unrestricted	(809,900)	545,072	(1,354,972)
Total Net Assets	<u>\$ 21,684,793</u>	<u>\$ 22,819,712</u>	<u>\$(1,134,919)</u>
Total Liabilities and Net Assets	<u>\$ 49,656,140</u>	<u>\$ 52,729,024</u>	<u>\$(3,072,884)</u>

Total Assets and Liabilities decreased during this period by \$3,072,884 and \$1,937,965 respectively, due, primarily, to maturing bond obligations and refinancing the 2003 series bond issue.

Current Assets reflect a decrease in cash due to an increase in expenditures. Noncurrent Assets reflect the value of equipment and infrastructure offset by accumulated depreciation.

Noncurrent Liabilities reflect payment of bonding obligations.

The following presents a summary of revenue and expense for the fiscal year ended June 30, 2012, compared to the fiscal year ended June 30, 2011.

Changes in Net Assets for the Year Ended June 30

	<u>2012</u>	<u>2011</u>	<u>Change</u>
Revenues			
Program Revenues:			
Charges for Services	\$ 1,232,607	\$ 1,212,666	\$ 19,941
Operating Grants and Contributions	13,152,321	16,087,621	(2,935,300)
Capital Grants and Contributions	<u>1,808,318</u>	<u>1,852,062</u>	<u>(43,744)</u>
Total program revenues	<u>16,193,246</u>	<u>19,152,349</u>	<u>(2,959,103)</u>
General Revenues:			
Taxes	7,901,288	7,739,891	161,397
Earnings on investments	13,655	36,686	(23,031)
State and formula grants	18,554,579	17,155,582	1,398,997
Gain (Loss) on retirement of assets	29,259	114,013	(84,754)
Miscellaneous	<u>30,667</u>	<u>12,890</u>	<u>17,777</u>
Total general revenues	<u>26,529,448</u>	<u>25,059,062</u>	<u>1,470,386</u>
Expenses			
Instruction	23,692,007	22,890,382	801,625
Student support services	2,065,483	2,051,778	13,705
Instructional support	2,297,340	2,216,784	80,556
District administration	1,464,499	1,192,142	272,357
School administration	1,730,567	1,708,151	22,416
Business support	656,033	602,838	53,195
Plant operations	3,931,558	3,832,074	99,484
Student transportation	3,195,495	2,741,644	453,851
Community services	493,333	518,449	(25,116)
Food Service Operation	3,247,516	3,164,719	82,797
Interest on long-term debt	1,018,140	1,310,409	(292,269)
Amortization	46,565	103,661	(57,096)
Other Debt Service	<u>19,077</u>	<u>6,978</u>	<u>12,099</u>
Total expenses	<u>43,857,613</u>	<u>42,340,009</u>	<u>1,517,604</u>
Change in Net Assets	(1,134,919)	1,871,402	(3,006,321)
Beginning Net Assets	<u>22,819,712</u>	<u>20,948,310</u>	<u>1,871,402</u>
Ending Net Assets	<u>\$ 21,684,793</u>	<u>\$ 22,819,712</u>	<u>\$(1,134,919)</u>

COMMENTS ON BUDGET COMPARISONS

- General fund budget compared to actual revenue varied from line item to line item with an ending result of \$26,053,204 (excluding on behalf payments, which are not budgeted) or approximately .4% less than budgeted.
- The total cost of all General Fund programs and services was \$27,275,627 (excluding on behalf payments).
- General fund budget expenditures to actual varied significantly in district administration as a result of the Board establishing a contingency totaling \$1,315,053.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2012, the District had \$47,046,491 invested in land, buildings, and equipment. Of that amount, \$44,371,214 is in governmental activities.

See Note E for a breakdown of additions by class on page 28.

Debt Administration

The District had \$26,235,000 in bonds payable outstanding on June 30, 2012. A total of \$2,085,000 is due within one year.

See Note F on pages 29-30 for a detailed list of bonds payable.

BUDGETARY IMPLICATIONS

In Kentucky, the public school fiscal year is July 1 to June 30; other programs, i.e. some federal grants, operate on a different fiscal calendar, but are reflected in the District overall budget. By law the general fund budget must have a minimum 2% contingency. The District adopted a 2011-12 budget with \$1,315,053 in contingency (4.7%). The contingency decreased due to continued revenue reductions from Frankfort. Belt tightening initiatives and staffing reductions are continually being examined, and implemented, to offset revenue shortfalls. Revenue issues are expected to continue until the state budget crisis is over. The beginning cash balance for the new fiscal year for all governmental and proprietary funds is \$1,189,587. Significant Board action that impacts the finances include no salary increase for district employees and limiting facility improvements and major purchases throughout the district.

Questions regarding this report should be directed to Kenneth Galloway, Superintendent at (270)328-1554 or to Ronald Mays, Director of Financial Services at (270)328-1544 or by mail at 2290 State Route 121 North, Mayfield, KY 42066.

GRAVES COUNTY SCHOOL DISTRICT

STATEMENT OF NET ASSETS

June 30, 2012

	Governmental Activities	Business- Type Activities	Total
ASSETS:			
Current Assets:			
Cash and cash equivalents	\$ 736,111	\$ 453,476	\$ 1,189,587
Receivables:			
Taxes - current	356,878	0	356,878
Taxes - delinquent	25,616	0	25,616
Accounts receivable	93,960	2,438	96,398
Due from school activity funds	9,922	0	9,922
Intergovernmental - state	34,437	0	34,437
Intergovernmental - federal	284,602	23,020	307,622
Prepaid expenses	61,354	0	61,354
Inventories	82,114	63,767	145,881
Total current assets	<u>1,684,994</u>	<u>542,701</u>	<u>2,227,695</u>
Noncurrent Assets:			
Capital assets	66,430,564	4,398,339	70,828,903
Less: Accumulated depreciation	(22,059,350)	(1,723,062)	(23,782,412)
Total noncurrent assets	<u>44,371,214</u>	<u>2,675,277</u>	<u>47,046,491</u>
Other Assets:			
Deferred bond issuance cost, net	381,954	0	381,954
Total other assets	<u>381,954</u>	<u>0</u>	<u>381,954</u>
TOTAL ASSETS	<u>\$ 46,438,162</u>	<u>\$ 3,217,978</u>	<u>\$ 49,656,140</u>
LIABILITIES :			
Current Liabilities:			
Accounts payable	\$ 109,133	\$ 16,908	\$ 126,041
Due to school activity funds	385	0	385
Deferred revenue	271,663	0	271,663
Accrued interest	121,203	0	121,203
Current portion of bond obligations	2,085,000	0	2,085,000
Current portion of premium on bonds payable	10,564	0	10,564
Current portion of deferred loss on early debt retire	(65,494)	0	(65,494)
Current portion of accrued sick leave	168,014	4,459	172,473
Total current liabilities	<u>2,700,468</u>	<u>21,367</u>	<u>2,721,835</u>
Noncurrent Liabilities:			
Noncurrent portion of bond obligations	24,150,000	0	24,150,000
Noncurrent portion of premium on bonds payable	10,564	0	10,564
Noncurrent portion of deferred loss on early debt re	(654,942)	0	(654,942)
Noncurrent portion of accrued sick leave	1,698,806	45,084	1,743,890
Total noncurrent liabilities	<u>25,204,428</u>	<u>45,084</u>	<u>25,249,512</u>
TOTAL LIABILITIES	<u>\$ 27,904,896</u>	<u>\$ 66,451</u>	<u>\$ 27,971,347</u>
NET ASSETS:			
Invested in capital assets, net of related debt	\$ 18,910,894	\$ 2,675,277	\$ 21,586,171
Restricted for:			
Construction	418,453	0	418,453
Debt service	13,819	0	13,819
Food service	0	476,250	476,250
Unrestricted	(809,900)	0	(809,900)
TOTAL NET ASSETS	<u>\$ 18,533,266</u>	<u>\$ 3,151,527</u>	<u>\$ 21,684,793</u>

See independent auditor's report and accompanying notes to financial statements

GRAVES COUNTY SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2012

FUNCTIONS/PROGRAMS	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants & Contributions	Capital Grants & Contributions	Governmental Activities	Business- Type Activities	Total
Governmental Activities:							
Instruction	\$ 23,692,007	\$ 125,101	\$ 6,905,450	\$ 1,808,318	\$ (14,853,138)	\$ 0	\$ (14,853,138)
Support Services:							
Student	2,065,483	0	623,795	0	(1,441,688)	0	(1,441,688)
Instructional Staff	2,297,340	0	847,068	0	(1,450,272)	0	(1,450,272)
District Administration	1,464,499	0	173,511	0	(1,290,988)	0	(1,290,988)
School Administration	1,730,567	0	331,475	0	(1,399,092)	0	(1,399,092)
Business	656,033	0	157,676	0	(498,357)	0	(498,357)
Plant operations and maintenance	3,931,558	14,390	525,357	0	(3,391,811)	0	(3,391,811)
Student transportation	3,195,495	0	465,355	0	(2,730,140)	0	(2,730,140)
Community service activities	493,333	0	476,937	0	(16,396)	0	(16,396)
Interest on long-term debt	1,018,140	0	534,741	0	(483,399)	0	(483,399)
Amortization - unallocated	46,565	0	0	0	(46,565)	0	(46,565)
Other debt service	19,077	0	0	0	(19,077)	0	(19,077)
Total governmental activities	40,610,097	139,491	11,041,365	1,808,318	(27,620,923)	0	(27,620,923)
Business-Type Activities:							
Food service	3,247,516	1,093,116	2,110,956	0	0	(43,444)	(43,444)
Total business-type activities	3,247,516	1,093,116	2,110,956	0	0	(43,444)	(43,444)
Total primary government	\$ 43,857,613	\$ 1,232,607	\$ 13,152,321	\$ 1,808,318	(27,620,923)	(43,444)	(27,664,367)
General Revenues:							
Taxes:							
Property					4,905,004	0	4,905,004
Motor Vehicle					907,721	0	907,721
Utilities					1,639,929	0	1,639,929
In Lieu of					448,634	0	448,634
Earnings on Investments					11,856	1,799	13,655
State and formula grants					18,554,579	0	18,554,579
Gain on retirement of assets					29,259	0	29,259
Miscellaneous					30,667	0	30,667
Total general revenues					26,527,649	1,799	26,529,448
Change in net assets					(1,093,274)	(41,645)	(1,134,919)
Net assets at July 1, 2011					19,626,540	3,193,172	22,819,712
Net assets at June 30, 2012					\$ 18,533,266	\$ 3,151,527	\$ 21,684,793

See independent auditor's report and accompanying notes to financial statements

GRAVES COUNTY SCHOOL DISTRICT
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2012

	General Fund	Special Revenue Fund	Construction Fund	Other Governmental Funds	Total Governmental Funds
ASSETS AND RESOURCES:					
Cash and cash equivalents	\$ 472,853	\$ (155,195)	\$ 350,271	\$ 68,182	\$ 736,111
Accounts receivable:					
Taxes - current	356,878	0	0	0	356,878
Taxes - delinquent	25,616	0	0	0	25,616
Accounts receivable	93,960	0	0	0	93,960
Due from school activity funds	9,922	0	0	0	9,922
Intergovernmental - state	0	34,437	0	0	34,437
Intergovernmental - federal	62,356	208,427	0	13,819	284,602
Prepaid expenses	61,354	0	0	0	61,354
TOTAL ASSETS AND RESOURCES	\$ 1,082,939	\$ 87,669	\$ 350,271	\$ 82,001	\$ 1,602,880
LIABILITIES AND FUND BALANCE:					
LIABILITIES:					
Accounts payable	\$ 107,748	\$ 1,385	\$ 0	\$ 0	\$ 109,133
Due to school activity funds	385	0	0	0	385
Deferred revenue	0	86,284	0	0	86,284
Current portion of accrued sick leave	14,864	0	0	0	14,864
TOTAL LIABILITIES	122,997	87,669	0	0	210,666
FUND BALANCES:					
Nonspendable - prepaids	61,354	0	0	0	61,354
Restricted - capital projects	0	0	350,271	68,182	418,453
Restricted - debt service	0	0	0	13,819	13,819
Committed - sick leave	149,000	0	0	0	149,000
Unassigned	749,588	0	0	0	749,588
TOTAL FUND BALANCES	959,942	0	350,271	82,001	1,392,214
TOTAL LIABILITIES AND FUND BALANCES	\$ 1,082,939	\$ 87,669	\$ 350,271	\$ 82,001	\$ 1,602,880

See independent auditor's report and accompanying notes to financial statements

GRAVES COUNTY SCHOOL DISTRICT
**RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL
FUND TO THE STATEMENT OF NET ASSETS**

June 30, 2012

Total fund balance per fund financial statements		\$ 1,392,214
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of the assets is \$66,430,564 and the accumulated depreciation is \$22,059,350.		44,371,214
Inventories are not reported in the governmental funds because they are not available to pay current period expenditures. These assets are, however, included in the statement of net assets.		82,114
Certain assets related to bond issuance costs are not reported in the governmental funds because they are not available to pay current period expenditures. These assets are, however, included in the statement of net assets.		381,954
Advance payments received from the Murray Head Start program for building and equipment costs are not due and payable in the current period and, therefore, are not reported as liabilities in the funds, but are reported as deferred revenue in the statement of net assets.		(185,379)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:		
Bonds payable	\$ (26,235,000)	
Accrued interest on bonds payable	(121,203)	
Premium on bonds payable	(21,128)	
Deferred loss on early retirement of debt	720,436	
Accrued sick leave payable	(1,851,956)	
		<u>(27,508,851)</u>
Net assets for governmental activities		<u><u>\$ 18,533,266</u></u>

See independent auditor's report and accompanying notes to financial statements

GRAVES COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS

For the Year Ended June 30, 2012

	General Fund	Special Revenue Fund	Construction Fund	Other Governmental Funds	Total Governmental Funds
REVENUES:					
From Local Sources:					
Taxes:					
Property	\$ 4,186,560	\$ 0	\$ 0	\$ 718,444	\$ 4,905,004
Motor Vehicle	907,721	0	0	0	907,721
Utilities	1,639,929	0	0	0	1,639,929
In Lieu of	416,791	0	0	0	416,791
Tuition	3,342	18,885	0	0	22,227
Earnings on Investments	11,856	0	0	0	11,856
Other local revenues	53,717	5,470	0	0	59,187
Intergovernmental - State	25,098,649	1,342,996	0	2,175,098	28,616,743
Intergovernmental - indirect federal	98,034	2,611,399	0	0	2,709,433
Intergovernmental - direct federal	0	23,402	0	167,961	191,363
TOTAL REVENUES	32,416,599	4,002,152	0	3,061,503	39,480,254
EXPENDITURES:					
Current:					
Instruction	19,397,439	2,870,767	0	0	22,268,206
Support Services:					
Student	1,951,281	107,662	0	0	2,058,943
Instructional Staff	1,736,655	603,877	0	0	2,340,532
District Administration	1,331,264	1,470	0	0	1,332,734
School Administration	1,721,695	0	0	0	1,721,695
Business	654,000	0	0	0	654,000
Plant operations and maintenance	3,782,587	124,009	0	0	3,906,596
Student transportation	2,840,886	0	0	0	2,840,886
Community service activities	23,388	476,937	0	0	500,325
Debt service	50,553	0	0	3,091,570	3,142,123
TOTAL EXPENDITURES	33,489,748	4,184,722	0	3,091,570	40,766,040
Excess (deficit) of revenues over expenditures	(1,073,149)	(182,570)	0	(30,067)	(1,285,786)
OTHER FINANCING SOURCES (USES):					
Sale or comp for loss of assets	33,296	0	0	0	33,296
Proceeds of refunding bonds	0	0	0	10,965,000	10,965,000
Payment to refunded bond escrow agent	0	0	0	(10,802,872)	(10,802,872)
Payment of bond issue costs	0	0	0	(75,460)	(75,460)
Discounts on bonds sold	0	0	0	(86,108)	(86,108)
Operating transfers in	17,523	200,093	0	1,867,758	2,085,374
Operating transfers out	(200,093)	(17,523)	0	(1,867,758)	(2,085,374)
TOTAL OTHER FINANCING SOURCES (USES)	(149,274)	182,570	0	560	33,856
Excess (deficit) of revenues and other financing sources over expenditures and other financing uses	(1,222,423)	0	0	(29,507)	(1,251,930)
Fund Balance, July 1, 2011	2,182,365	0	350,271	111,508	2,644,144
Fund Balance, June 30, 2012	\$ 959,942	\$ 0	\$ 350,271	\$ 82,001	\$ 1,392,214

See independent auditor's report and accompanying notes to financial statements

GRAVES COUNTY SCHOOL DISTRICT
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
 CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES**
 For the Year Ended June 30, 2012

Net change in total fund balances per fund financial statements	\$ (1,251,930)
Amounts reported for governmental activities in the statement of activities are different because:	
Capital outlays are reported in governmental funds as expenditures; however, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays of \$140,717 and gain from the disposal of assets of \$29,259 is exceeded by depreciation expense of (\$1,972,131) and gross proceeds from the disposal of assets of \$(33,296).	(1,835,451)
Inventories in the statement of activities differs from the amount reported in the governmental funds because inventories are recognized as an expenditure in the funds when they are purchased, and thus require the use of current financial resources. In the statement of activities, however, inventories are recognized as a current asset. This is amount of the decrease in governmental fund inventories.	(28,730)
Repayment of capital lease obligations is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets	50,553
The proceeds of debt issuances provide current financial resources to governmental funds, but issuing debt increases liabilities in the statement of net assets. Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces liabilities in the statement of net assets. This is the amount by which debt repayments exceeds debt proceeds	2,114,440
In the statement of activities, certain operating expenses are recognized when they are incurred. In the governmental funds, however, expenditures for those items are limited to only those that use current financial resources. This is the amount of the increase in accrued sick leave	(103,819)
Advance payments from the Murray Head Start program for building and equipment costs are recognized as revenue in the funds when it is available. In the statement of activities, however, these advance payments are recorded as a deferred liability. This is the amount of the decrease in deferred revenue.	22,310
Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recognized as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. This is the amount of the decrease in interest payable	23,924
The accretion of a premium on a bond issue is a use of funds in the governmental funds. This accretion reduces the related long-term liability in the statement of activities.	10,564
The amortization of bond issuance costs reported in the statement of activities does not require the use of current financial resources and therefore is not reported as an expenditure in governmental funds	(95,135)
Change in net assets of governmental activities	<u>\$ (1,093,274)</u>

See independent auditor's report and accompanying notes to financial statements

GRAVES COUNTY SCHOOL DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2012

	Food Service Fund
	<u> </u>
ASSETS:	
Current Assets	
Cash and cash equivalents	\$ 453,476
Accounts receivable:	
Intergovernmental - federal	23,020
Other accounts receivable	2,438
Inventory	<u>63,767</u>
Total current assets	<u>542,701</u>
Noncurrent Assets	
Capital assets	4,398,339
Less: accumulated depreciation	<u>(1,723,062)</u>
Total noncurrent assets	<u>2,675,277</u>
TOTAL ASSETS	<u><u>\$ 3,217,978</u></u>
LIABILITIES:	
Current Liabilities	
Accounts payable	\$ 16,908
Accrued sick leave	<u>4,459</u>
Total current liabilities	<u>21,367</u>
Noncurrent Liabilities	
Accrued sick leave	<u>45,084</u>
Total noncurrent liabilities	<u>45,084</u>
Total Liabilities	<u><u>\$ 66,451</u></u>
Net Assets	
Invested in capital assets, net of related debt	\$ 2,675,277
Nonspendable - inventory	63,767
Restricted - food service	<u>412,483</u>
Total net assets	<u><u>\$ 3,151,527</u></u>

See independent auditor's report and accompanying notes to financial statements

GRAVES COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS

For the Year Ended June 30, 2012

	Food Service Fund
	<hr/>
Operating Revenues:	
Lunchroom sales	\$ 1,060,988
Other operating revenues	32,128
	<hr/>
Total operating revenues	1,093,116
	<hr/>
Operating Expenses:	
Salaries and benefits	1,414,944
Contract services	99,246
Materials and supplies	1,626,402
Expendable equipment	6,601
Depreciation	100,272
Other operating expenses	51
	<hr/>
Total operating expenses	3,247,516
	<hr/>
Operating income (loss)	(2,154,400)
	<hr/>
Non-Operating Revenues (Expenses):	
Federal grants	1,719,118
Donated commodities	137,677
State grants	254,161
Interest income	1,799
	<hr/>
Total non-operating revenues	2,112,755
	<hr/>
Change in net assets	(41,645)
	<hr/>
Net Assets, July 1, 2011	3,193,172
	<hr/>
Net Assets, June 30, 2012	\$ 3,151,527
	<hr/> <hr/>

See independent auditor's report and accompanying notes to financial statements

GRAVES COUNTY SCHOOL DISTRICT
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Year Ended June 30, 2012

	Food Service Fund
Cash Flows from Operating Activities:	
Cash received from:	
Lunchroom sales	\$ 1,060,988
Other operating revenues	30,739
Cash paid to/for:	
Employees	(1,180,035)
Contract services	(99,246)
Materials and supplies	(1,457,304)
Expendable equipment	(6,601)
Other operating expenses	(51)
Net cash provided by (used in) operating activities	<u>(1,651,510)</u>
Cash Flows from Non-Capital Financing Activities:	
Non-operating grants received	<u>1,755,963</u>
Net cash provided by (used in)	
non-capital financing activities	<u>1,755,963</u>
Cash Flows from Capital and Related Financing Activities:	
Purchase of assets	<u>(31,014)</u>
Net cash provided by (used in)	
capital and related financing activities	<u>(31,014)</u>
Cash Flows from Investing Activities:	
Interest income received	<u>1,799</u>
Net cash provided by (used in) investing activities	<u>1,799</u>
Net increase (decrease) in cash and cash equivalents	75,238
Cash and cash equivalents, July 1, 2011	<u>378,238</u>
Cash and cash equivalents, June 30, 2012	<u><u>\$ 453,476</u></u>
Reconciliation of operating income (loss)	
to net cash provided by (used in) operating activities:	
Operating income (loss)	\$ (2,154,400)
Adjustments to reconcile operating income (loss) to	
net cash provided by (used in) operating activities:	
Depreciation	100,272
In-kind grant from state	226,624
Commodities used	137,677
Changes in assets and liabilities:	
Inventory	15,979
Accounts receivable	(1,389)
Accrued sick leave	8,285
Accounts payable	15,442
Net cash provided by operating activities	<u><u>\$ (1,651,510)</u></u>
Non-Cash Investing, Capital, and Financing Activities:	
Food commodities received	\$ 137,677
In-kind grant from state for benefits	226,624
Total Non-Cash Investing, Capital, and	
Financing Activities	<u><u>\$ 364,301</u></u>

See independent auditor's report and accompanying notes to financial statements

GRAVES COUNTY SCHOOL DISTRICT
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
June 30, 2012

	Private Purpose Trust Funds	Agency Fund
ASSETS:		
Cash and cash equivalents	\$ 188,858	\$ 499,722
Accounts receivable	0	38,113
Due from Governmental Funds	0	385
Total Assets	<u><u>\$ 188,858</u></u>	<u><u>\$ 538,220</u></u>
LIABILITIES:		
Accounts payable	\$ 835	\$ 13,514
Due to Governmental Funds	0	9,922
Due to student groups	0	514,784
Total Liabilities	<u><u>\$ 835</u></u>	<u><u>\$ 538,220</u></u>
NET ASSETS HELD IN TRUST	<u><u>\$ 188,023</u></u>	<u><u>\$ 0</u></u>

See independent auditor's report and accompanying notes to financial statements

GRAVES COUNTY SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
For the Year Ended June 30, 2012

	Private Purpose Trust Funds
	<u> </u>
Additions:	
Interest income	\$ 273
Contributions received	<u>72,524</u>
Total Additions	<u>72,797</u>
 Deductions:	
Community services	<u>76,613</u>
Total Deductions	<u>76,613</u>
Change in net assets	(3,816)
Net assets, July 1, 2011	<u>191,839</u>
Net assets, June 30, 2012	<u><u>\$ 188,023</u></u>

See independent auditor's report and accompanying notes to financial statements

GRAVES COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS
Year ended June 30, 2012

NOTE A – REPORTING ENTITY

The Graves County Board of Education ("Board"), a five-member group, is the level of government which has oversight responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of the Graves County School District ("District"). The District receives funding from local, state and federal government sources and must comply with the commitment requirements of these funding source entities. However, the District is not included in any other governmental "reporting entity" as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards because board members are elected by the public and have decision-making authority, the power to designate management, the responsibility to develop policies which may influence operations, and primary accountability for fiscal matters.

The District, for financial purposes, includes all of the funds and activities relevant to the operation of the Graves County School District. The financial statements presented herein do not include funds of groups and organizations, which although associated with the school system, have not originated within the Board itself such as Boosters, Parent-Teacher Associations, etc. The District is not involved in budgeting or managing these organizations, and is not responsible for any debt of the organizations, nor has any influence over the operation of the organizations.

The financial statements of the District include those of separately administered organizations that are controlled by or dependent on the District. Control or dependence is determined on the basis of budget adoption, funding and appointment of the respective governing board.

Based on the foregoing criteria, the financial statements of the following organization are included in the accompanying financial statements:

Graves County School District Finance Corporation – In 1991, the Graves County, Kentucky, Board of Education resolved to authorize the establishment of the Graves County School District Finance Corporation (a non-profit, non-stock, public and charitable corporation organized under the School Bond Act and KRS 273 and KRS Section 58.180) (the "Corporation") as an agency for the District for financing the costs of school building facilities. The board members of the Graves County Board of Education also comprise the Corporation's Board of Directors.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The District's financial statements are prepared in accordance with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989, to its governmental and business-type activities and to its proprietary funds provided they do not conflict with or contradict GASB pronouncements. The most significant of the District's accounting policies are described below.

Basis of Presentation

Government-wide Financial Statements – The Statement of Net Assets and the Statement of Activities display information about the District as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the District that are governmental and those that are considered business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

GRAVES COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED
Year ended June 30, 2012

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Basis of Presentation (Continued)

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements, therefore, include reconciliations with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds.

The government-wide Statement of Activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the District and for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are, therefore, clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the District, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the District. The District does not allocate indirect expenses.

Fund Financial Statements – The financial transactions of the District are reported in individual funds in the fund financial statements, each of which is considered to be a separate set of self-balancing accounts which constitute its assets, liabilities, fund equity, revenues, and expenditures. Funds are organized into three major categories: governmental, proprietary, and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets, current liabilities, and fund balances, and a statement of revenues, expenditures and changes in fund balances, which reports on the sources (i.e., revenues and other financing sources) and uses (i.e., expenditures and other financing uses) of current financial resources.

All proprietary funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the statement of net assets. The statement of revenues, expenses, and changes in net assets presents increases (i.e., revenues) and decreases (i.e., expenses) in net total assets. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary activities.

The fiduciary funds are reported using the economic resources measurement focus.

GRAVES COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED
Year ended June 30, 2012

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Fund Accounting

The District has the following funds:

I. Governmental Fund Types

- (A) The General Fund is the primary operating fund of the District. It accounts for all financial resources used for general types of operations. This is a budgeted fund, and any unrestricted fund balances are considered as resources available for use. This is always classified as a major fund of the District per GASB 34.
- (B) The Special Revenue (Grant) Fund accounts for proceeds of specific revenue sources, such as grants, donations, or gifts (other than expendable trusts or major capital projects) that are legally restricted or committed to expenditure for specified purposes other than debt service or capital projects. It includes state, federal and private grants where unused balances are returned to the grantor at the close of the specified project periods. Project accounting codes are employed to distinguish specific revenue sources and expenditures. The separate projects of federally-funded grant programs are identified in the Schedule of Expenditures of Federal Awards included in this report on page 44. This is a major fund of the District.
- (C) Capital Project Funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for capital outlays including the acquisition or construction of capital facilities and other capital assets (other than those financed by Proprietary Funds). Common sources of revenue to these funds are the capital outlay allotment, building tax levies, technology allotment and sale of bonds.
 - 1. The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the state as Capital Outlay Funds (unless authorized for retention in the General Fund) and is restricted for use in financing projects identified in the District's facility plan.
 - 2. The Facility Support Program of Kentucky (FSPK) Fund accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the District's facility plan.
 - 3. The Construction Fund accounts for proceeds from sales of bonds and other revenues to be used for authorized construction. This is a major fund of the District.
- (D) The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest and related costs; and, for the payment of interest on general obligation notes payable, as required by Kentucky Law.

II. Proprietary Fund Types (Enterprise Fund)

The Food Service Fund (Enterprise) is used to account for school food service activities, including the National School Lunch Program, which is conducted in cooperation with the U.S. Department of Agriculture (USDA). An amount of \$137,677 has been recorded for in-kind contribution of commodities from the USDA. The Food Service Fund is a major fund of the District.

GRAVES COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED
Year ended June 30, 2012

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Fund Accounting – continued

III. Fiduciary Fund Type (Agency and Private Purpose Trust Funds)

- (A) Activity funds account for assets held by the District in a purely custodial capacity. Since Agency Funds are custodial in nature (i.e., assets equal liabilities), they do not involve the measurement of results of operations. The Agency Fund accounts for activities of student groups and other types of activities requiring clearing accounts. These activity funds are accounted for in accordance with the Uniform Program of Accounting for School Activity Funds.
- (B) The Private Purpose Trust Funds are used to report trust arrangements under which principal and income benefit individuals, private organizations or other governments.

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting.

Exchange transactions, in which each party receives essentially equal value, are recorded on the accrual basis when the exchange takes place. On the modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means resources are expected to be received within sixty days of the fiscal year-end.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the District must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. On the modified accrual basis, revenues from non-exchange transactions must also be available before it can be recognized.

Deferred Revenue arises when assets are recognized before revenue recognition criteria have been satisfied. Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the statement of revenues, expenses, and changes in net assets as an expense with a like amount reported as donated commodities revenue.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation, are not recognized in governmental funds.

GRAVES COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED
Year ended June 30, 2012

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Property Taxes

Property taxes are levied each October on the assessed value listed as of the prior January 1, for all real and personal property within the School District. The billings are considered due upon receipt by the taxpayer; however, the actual date is based on a period ending thirty days after the tax bill mailing. Property taxes collected are recorded as revenues in the fund for which they were levied.

The property tax rates for the year ended June 30, 2012, to finance operations were \$.370 per \$100 valuation for real property, \$.370 per \$100 valuation for business personal property and \$.464 per \$100 valuation for motor vehicles.

The District levies a utility gross receipts license tax in the amount of 3% of the gross receipts derived from the furnishings, within the District, of telephonic and telegraphic communications services, cablevision services, electric power, water, and natural, artificial and mixed gas.

Budgetary Process

Budgetary Basis of Accounting: The District's budgetary process accounts for revenues and expenses on the same basis as the actual financial statements, which is Generally Accepted Accounting Principles (GAAP).

Once the budget is approved, it can be amended. Each budget is prepared and controlled by the budget coordinator at the revenue and expenditure function/object level. All budget appropriations lapse at year-end.

Cash and Cash Equivalents

The District considers demand deposits, money market funds, and other investments with an original maturity of ninety days or less, to be cash equivalents.

Inventories

Inventories maintained by the District consist of expendable supplies held for consumption (paper and garage supplies in the governmental activities and food and supplies in the business-type activities). Inventories are expensed when used in the government-wide financial statements and recorded as expenditures in the governmental fund types when purchased. Inventories are stated at cost (except for donated commodity inventory, which is stated at estimated value on date of receipt) using the first-in, first-out method for both the governmental and business-type activities.

Prepaid Assets

Payments made that will benefit periods beyond June 30, 2012 are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which services are consumed. Prepaid items at June 30, 2012 consisted of student accident insurance and advanced web traffic reporting software paid during the fiscal year ended June 30, 2012 that included coverage for periods beyond June 30, 2012.

GRAVES COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED
Year ended June 30, 2012

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Debt Costs

Unamortized debt issuance costs and unamortized discounts in the amount of \$381,954 are included in the government-wide statements. Both debt issuance costs and discounts are amortized over the lives of the related debt issues using the straight-line method.

Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the government-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the government-wide statement of net assets and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. At its July, 2012 meeting the Board approved a change to its Equipment and Assets policy in order to follow guidelines developed by the Kentucky Department of Education in its latest update on January 25, 2012. Prior to the adoption of the new guidelines, the District maintained a capitalization threshold of one thousand dollars with the exception of technology equipment for which there was no threshold. The new guidelines establish a capitalization threshold of \$5,000 for real or personal property. Larger thresholds apply to buildings and building improvements and leasehold improvements. Improvements to land and to buildings in excess of the above limits are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

All capital assets, except land and construction in progress, are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives for both governmental and business-type capital assets:

<u>Description</u>	<u>Governmental Activities Estimated Lives</u>
Buildings and improvements	25-50 years
Land improvements	20 years
Technology equipment	5 years
Vehicles	5-10 years
Food service equipment	12 years
General equipment	10-20 years

GRAVES COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED
Year ended June 30, 2012

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Accumulated Unpaid Sick Leave Benefits

For those employees who qualify, the District has adopted the policy of providing at retirement a percentage of their accumulated unused sick leave.

Sick leave benefits are accrued as a liability using the vesting method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is based on leave accumulated by employees who are currently eligible to receive termination payments, as well as other employees who are expected to become eligible in the future.

This entire compensated absence liability is reported in the government-wide financial statements.

For governmental fund financial statements the current portion of unpaid accrued sick leave is the amount expected to be paid using expendable available resources. These amounts, when applicable, are recorded in the account "current portion of accrued sick leave" in the general fund. The noncurrent portion of the liability is not reported.

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgments, the noncurrent portion of capital leases, accumulated sick leave, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as liabilities in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within sixty days after year-end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as liabilities in the fund financial statements until due.

Fund Balance Classifications

Nonspendable fund balances are amounts that are not in a spendable form (such as prepaid expenses or inventories) or are required to be maintained intact.

Restricted fund balances arise when constraints placed on the use of resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

Committed fund balances are those amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority which, for the District, is the Board of Education. The Board of Education must approve by majority vote the establishment (and modification or rescinding) of a fund balance commitment.

GRAVES COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED
Year ended June 30, 2012

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Fund Balance Classifications (Continued)

Assigned fund balances are those amounts that are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed. The Board of Education allows the program supervisors to complete purchase orders which result in the encumbrance of funds. Assigned fund balance also includes (a) all remaining amounts, except negative balances, that are reported in governmental funds, other than the general fund, that are not classified as nonspendable and are neither restricted nor committed and (b) amounts in the general fund that are intended to be used for a specific purpose.

Unassigned fund balance is the residual classification for the General Fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the General Fund. The General Fund is the only fund that reports a positive unassigned fund balance. In other governmental funds, if expenditures incurred for specific purposes exceed the amounts restricted, committed, or assigned to those purposes, it may be necessary to report a negative unassigned fund balance.

The District considers restricted amounts to have been spent first when expenditures are incurred for purposes for which both restricted and unrestricted fund balances are available. The District does not have a policy regarding the use of unrestricted fund balance amounts. Therefore, the default order is used which considers that committed amounts would be reduced first, followed by assigned amounts, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the School District or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the District, those revenues are primarily charges for meals provided by the various schools. Non-operating revenues and expenses consist of those revenues and expenses that are related to financing and investing types of activities and result from non-exchange transactions or ancillary activities.

Use of Restricted Resources

When an expense is incurred for which there are both restricted and unrestricted net assets available, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

GRAVES COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED
Year ended June 30, 2012

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after nonoperating revenues/expenses in proprietary funds. Interfund transfers between funds of the same type are eliminated in the government-wide statements. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

Subsequent Events

In preparing these financial statements, management has evaluated other events and transactions for potential recognition or disclosure through November 9, 2012, the date the financial statements were available to be issued.

NOTE C – ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect reported amounts of assets, liabilities, fund balances, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE D – CASH AND CASH EQUIVALENTS

The District's funds are required to be deposited and invested under the terms of a depository contract pursuant to KRS 160.570 and 702 KAR 3:090. The depository bank deposits for safekeeping and trust with the District's third party agent approved pledged securities in an amount sufficient to protect District funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the dollar amount of Federal Deposit Insurance Corporation (FDIC) insurance.

Kentucky Revised Statutes authorize the Board to invest in direct obligations of the United States government, obligations backed by the full faith and credit of the United States government, certificates of deposit or other interest bearing accounts issued by any bank or saving and loan institution provided that such investment is insured by the FDIC or guaranteed by the pledge of direct United States Government obligations, bonds issued by the Commonwealth of Kentucky or one of its agencies and instrumentalities, securities issued by any state or local government of the United States rated in one of the three highest categories by a nationally recognized rating agency, certain mutual funds, commercial paper rated in the highest category by a nationally recognized rating agency, or bankers' acceptance for banks rated in one of the three highest categories by a nationally recognized rating agency. The District has no investment policy that would further limit its investment choices.

At year-end, the carrying amount of the District's total cash and cash equivalents was \$1,878,167. The bank balance was \$2,531,504. Of the bank balance, \$551,268 was covered by Federal Depository insurance and the remaining balance was subject to custodial credit risk. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The remaining balance of \$1,980,236 was uninsured and collateralized with securities held by the pledging bank's agent, in the District's name.

GRAVES COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED
For the Year Ended June 30, 2012

Note E - Capital Assets

Capital asset activity for the fiscal year ended June 30, 2012, was as follows:

Governmental Activities	Balance July 1, 2011	Additions	Retirements	Balance June 30, 2012
Capital Assets:				
Land	\$ 1,473,208	\$ 0	\$ 0	\$ 1,473,208
Land improvements	132,157	0	0	132,157
Buildings and improvements	52,264,033	0	0	52,264,033
Technology equipment	2,965,348	102,333	130,681	2,937,000
Vehicles	6,036,809	62,266	287,141	5,811,934
General Equipment	3,112,795	38,384	12,950	3,138,229
Infrastructure	170,676	0	0	170,676
Property under capital lease	503,327	0	0	503,327
Construction in progress	62,266	0	62,266	0
Totals at historical cost	<u>66,720,619</u>	<u>202,983</u>	<u>493,038</u>	<u>66,430,564</u>
Less: Accumulated depreciation				
Land improvements	33,039	6,608	0	39,647
Buildings and improvements	12,056,588	1,086,497	0	13,143,085
Technology equipment	2,351,370	270,089	129,060	2,492,399
Vehicles	3,933,399	343,387	287,141	3,989,645
General Equipment	1,658,355	210,451	10,534	1,858,272
Infrastructure	24,441	8,534	0	32,975
Property under capital lease	456,762	46,565	0	503,327
Total accumulated depreciation	<u>20,513,954</u>	<u>1,972,131</u>	<u>426,735</u>	<u>22,059,350</u>
Governmental Activities Capital Assets - Net	<u>\$ 46,206,665</u>	<u>\$ (1,769,148)</u>	<u>\$ 66,303</u>	<u>\$ 44,371,214</u>
Business-Type Activities				
Capital Assets:				
Buildings and improvements	\$ 3,147,257	\$ 0	\$ 0	\$ 3,147,257
Technology equipment	60,760	499	0	61,259
General Equipment	1,166,208	30,515	6,900	1,189,823
Totals at historical cost	<u>4,374,225</u>	<u>31,014</u>	<u>6,900</u>	<u>4,398,339</u>
Less: Accumulated depreciation				
Buildings and improvements	733,950	49,705	0	783,655
Technology equipment	29,454	10,465	0	39,919
General Equipment	866,286	40,102	6,900	899,488
Total accumulated depreciation	<u>1,629,690</u>	<u>100,272</u>	<u>6,900</u>	<u>1,723,062</u>
Business-Type Activities Capital Assets - Net	<u>\$ 2,744,535</u>	<u>\$ (69,258)</u>	<u>\$ 0</u>	<u>\$ 2,675,277</u>

Amortization expense of \$46,565 related to a capital lease was not allocated to governmental activities. It appears on the statement of activities as "unallocated".

Depreciation expense was charged to governmental functions as follows:

Instructional	\$ 1,506,240
Student support	6,540
Instructional staff support	18,806
District administration	27,946
School administrative support	8,872
Business support	2,033
Plant operation and maintenance	24,962
Student transportation	330,167
Total depreciation expense	<u>\$ 1,925,566</u>

GRAVES COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED
Year ended June 30, 2012

NOTE F – BONDED DEBT AND CAPITAL LEASE OBLIGATIONS

The amount shown in the accompanying government-wide financial statements as bond obligations represent the District's future obligations to make lease payments related to school building revenue bonds issued by the Graves County School District Finance Corporation on behalf of the District for purposes of school facility construction. These amounts are not reflected on the fund financial statements.

The District, through the General Fund, SEEK Capital Outlay Fund and the Facility Support Program Levy Fund is obligated to make lease payments. The lease agreements provide, among other things, for rentals sufficient to satisfy debt service requirements on bonds issued by the Graves County School District Finance Corporation to construct school facilities. The District has the option to purchase the property under lease at any time by retiring the bonds then outstanding. Upon completion of such payments, the leased premises should become the property of the District. The District is obligated to maintain adequate property insurance on the school facilities, and the school facilities have been pledged as security to the holders of the bonds.

The original amount of each issue, the issue date, and interest rates are summarized below:

<u>Issue Date</u>	<u>Proceeds</u>	<u>Rates</u>
2001	\$ 6,550,000	3.400% - 4.500%
2002B	700,000	1.500% - 3.800%
2003	17,530,000	1.000% - 4.170%
2006	2,575,000	3.500% - 4.200%
2009R	1,525,000	2.500% - 3.700%
2009	9,080,000	2.100% - 6.200%
2011R	10,965,000	2.000% - 3.125%

In 1991 the District entered into a "participation agreement" with the Kentucky School Facility Construction Commission. The Commission was created by the Kentucky General Assembly for the purpose of assisting local school districts in meeting school construction needs. The table on the following page sets forth the amount to be paid by the District and the Commission for each year until maturity of all bond issues. The liability for the total bond amount remains with the District and, as such, the total principal outstanding has been recorded in the financial statements.

In June 2009, the District issued \$9,080,000 in School Building Revenue Bonds (Build America Bonds). The District will receive a subsidy payment from the federal government equal to thirty-five percent of each interest payment on the Build America Bonds. The subsidy payment is included in revenue and interest expense on the financial statements. These payments are disclosed on the following page.

On September 1, 2011, the Board issued \$10,965,000 of School Building Revenue Refunding Bonds to advance refund on June 1, 2013 the outstanding 2003 School Building Revenue Bonds that are scheduled to mature on or after June 1, 2015. The liabilities for the defeased bonds are not included in the District's financial statements. On June 30, 2012, \$9,920,000 of bonds outstanding is considered defeased. The advance refund reduced total debt service payments over the next twelve years by \$680,118, with a net present value savings of 5.997%. This results in an economic gain (the difference between the present value of the old and the new debt service payments) of \$568,019. In the Statement of Net Assets, the net costs associated with the early retirement of the issues are deferred and amortized over the remaining life of the defeased debt. The amount deferred is reported as a decrease to the book value of the new debt issued to finance the refunding. Total deferred costs were \$785,930. Amortization for the year was \$65,494 and is included as a component of interest expense.

GRAVES COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED
Year ended June 30, 2012

NOTE F – BONDED DEBT AND CAPITAL LEASE OBLIGATIONS – CONTINUED

The bonds may be called prior to maturity and redemption premiums are specified in each issue. Assuming no bonds are called prior to scheduled maturity, the minimum obligations of the District, including amounts to be paid by the Commission, at June 30, 2012 for debt service (principal and interest) are as follows:

Year	Graves County School District			Kentucky School Facility Construction Commission		
	Principal	Interest	Federal Subsidy	Principal	Interest	Total
2012-2013	\$ 1,484,553	\$ 643,834	\$ (165,832)	\$ 600,447	\$ 354,469	\$ 2,917,471
2013-2014	1,539,966	589,649	(163,272)	625,034	333,454	2,924,831
2014-2015	1,595,928	531,371	(160,052)	589,072	310,937	2,867,256
2015-2016	1,361,810	495,560	(156,440)	473,190	292,052	2,466,172
2016-2017	1,382,415	459,634	(148,904)	492,585	273,976	2,459,706
2017-2018	1,411,924	422,866	(140,961)	508,076	254,247	2,456,152
2018-2019	1,440,850	385,119	(132,680)	529,150	233,653	2,456,092
2019-2020	1,473,751	342,747	(123,419)	551,249	211,428	2,455,756
2020-2021	1,505,250	293,642	(113,717)	374,750	187,241	2,247,166
2021-2022	1,547,037	240,320	(103,642)	392,963	169,027	2,245,705
2022-2023	1,592,630	185,137	(92,883)	412,370	149,620	2,246,874
2023-2024	420,886	126,469	(81,526)	334,114	128,761	928,704
2024-2025	426,865	103,712	(69,343)	353,135	109,740	924,109
2025-2026	436,548	80,470	(56,743)	373,452	89,422	923,149
2026-2027	307,378	56,550	(43,509)	342,622	67,761	730,802
2027-2028	301,136	37,492	(29,404)	363,864	46,518	719,606
2028-2029	303,577	18,822	(14,973)	386,423	23,958	717,807
	<u>\$ 18,532,504</u>	<u>\$ 5,013,394</u>	<u>\$ (1,797,300)</u>	<u>\$ 7,702,496</u>	<u>\$ 3,236,264</u>	<u>\$ 32,687,358</u>

Interest incurred and charged to expense for fiscal year ended June 30, 2012, was \$1,018,140, which includes \$167,961 received from the Build America bond federal subsidy.

A summary of changes in long-term debt is as follows:

Type	Balance June 30, 2011	Increase	Decrease	Balance June 30, 2012
Bonds payable	\$ 27,305,000	\$ 10,965,000	\$ 12,035,000	\$ 26,235,000
Capital lease	48,520	0	48,520	0
Premium on bonds	172,041	0	150,913	21,128
Accrued sick leave - governmental	1,788,920	0	90,114	1,698,806
Accrued sick leave - business-type	41,258	3,826	0	45,084
Totals	<u>\$ 29,355,739</u>	<u>\$ 10,968,826</u>	<u>\$ 12,324,547</u>	<u>\$ 28,000,018</u>

GRAVES COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED
Year ended June 30, 2012

NOTE G – RETIREMENT PLANS

Plan Descriptions

The Graves County School District contributes to the Teachers' Retirement System of Kentucky (KTRS) and the County Employee's Retirement System (CERS), both cost-sharing, multiple employer defined benefit pension plans. Certified employees are covered under KTRS and substantially all other employees (classified employees) are covered under CERS. Both plans administer retirement and disability annuities, and death and survivor benefits to employees and beneficiaries of employees of the public school systems and other public educational agencies in Kentucky. KTRS requires that members of KTRS occupy a position requiring either a four (4) year college degree or certification by Kentucky Department of Education (KDE). Job classifications that permit experience to substitute for either of these requirements do not participate in KTRS.

The Kentucky Revised Statutes provided for the establishment of both systems and benefit amendments are authorized by the State legislature. KTRS was created by the 1938 General Assembly and is governed by Chapter 161 Section 220 through Chapter 161 Section 990 of the Kentucky Revised Statutes (KRS). KTRS issues a publicly available financial report that includes financial statements and required supplementary information for that plan. The KTRS report can be obtained by writing to Kentucky Teachers' Retirement System, 479 Versailles Road, Frankfort, KY 40601 or from the KTRS website at <http://www.ktrs.ky.gov/>. The CERS report can be obtained by writing to Kentucky Employee's Retirement System, Perimeter Park West, 1260 Louisville Road, Frankfort, KY 40601.

Funding Policy

Contribution rates are established by KRS. Plan members of KTRS who established an account in a state retirement system before July 2008 are required to contribute 10.355% of their salaries to KTRS. Members after July 1, 2008 contribute an additional .5%. The Commonwealth of Kentucky is required to contribute 13.605% of salaries for members in a state retirement system before July 1, 2008 and 14.105% of salaries for members who started their account after July 1, 2008. The federal program for any salaries paid by that program pays the matching contributions. Plan members of CERS are required to contribute 5% of their annual covered salary, and the Graves County School District provides a contribution of 18.96% of that salary. For employees hired on September 1, 2008, or thereafter, an additional 1% must be contributed to a health insurance account.

Medical Insurance Plan

Plan description – In addition to the pension benefits described above, Kentucky Revised Statute 161.675 requires KTRS to provide access to post-retirement healthcare benefits to eligible members and dependents. The KTRS Medical Insurance benefit is a cost-sharing multiple employer defined benefit plan. Changes made to the medical plan may be made by the KTRS Board of Trustees, the Kentucky Department of Employee Insurance and the General Assembly.

To be eligible for medical benefits, the member must have retired either for service or disability. The KTRS Medical Insurance Fund offers coverage to members under the age of 65 through the Kentucky Employees Health Plan administered by the Kentucky Department of Employee Insurance. Once retired members and eligible spouses attain age 65 and are Medicare eligible, coverage is obtained through the KTRS Medicare Eligible Health Plan.

Funding policy – In order to fund the post-employment healthcare benefit, active member contributions are matched by the state at .75% of members' gross salaries. Those who became members before July 1, 2008 contribute 1.25% of salary to the plan. Member contributions are 1.75% of salary for those who became members after July 1, 2008. Also, the premiums collected from retirees as described in the plan description and investment interest help meet the medical expenses of the plan. Additionally, under the Shared Responsibility Plan, the local school district employers pay .5% of members' salary for the 2011-2012 fiscal year.

GRAVES COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED
Year ended June 30, 2012

NOTE G – RETIREMENT PLANS – CONTINUED

The Graves County School District's total payroll for the year was \$24,004,962. The payroll for employees covered under KTRS was \$18,544,300 and for CERS was \$5,387,404. For the year ended June 30, 2012, the Commonwealth contributed \$2,228,568 to KTRS for the benefit of participating employees. The District's contributions to KTRS for the year ended June 30, 2012 was \$222,605, which represents those employees covered by federal programs. The contribution requirement and the amount contributed to CERS for the year ended June 30, 2012 was \$1,298,824 which consisted of \$1,021,458 from the Board and \$277,366 from the employees. The contributions required and paid to CERS for the years ended June 30, 2011 and 2010 were \$1,188,134 and \$1,161,909, respectively.

The District also offers employees the option to participate in a defined contribution plan under Section 403(B), 401(K) and 457 of the Internal Revenue Code. All regular full-time and part-time employees are eligible to participate and may contribute up to the maximum amount allowable by law. The District does not contribute to these plans.

NOTE H – BENEFITS FUNDED BY KENTUCKY STATE DEPARTMENT OF EDUCATION

The Kentucky Department of Education has indicated the following amounts were contributed on-behalf of the District for the year ended June 30, 2012:

Contributions to Kentucky Teachers' Retirement System	\$ 2,228,568
Health insurance, life insurance, flexible spending accounts (includes administrative fee)	<u>4,412,270</u>
Total	<u><u>\$ 6,640,838</u></u>

These payments are recorded in the General and Food Service Funds as revenues and expenditures. The District is not legally responsible for these contributions. These payments are not required to be budgeted by the District.

On-behalf contributions were charged to governmental functions as follows:

Instruction	\$ 4,171,414
Support services:	
Student	516,133
Instructional staff	243,191
District administration	172,041
School administration	331,475
Business	157,676
Plant operations and maintenance	401,348
Student transportation	420,936
Food services	<u>226,624</u>
Total	<u><u>\$ 6,640,838</u></u>

GRAVES COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED
Year ended June 30, 2012

NOTE I – COMMITMENTS AND CONTINGENCIES

Grant Contingencies

The District receives funding from federal, state and local government agencies and private contributions. These funds are to be used for designated purposes only. For government agency grants, if the grantor's review indicates that the funds have not been used for the intended purpose, the grantor may request a refund of monies advanced or refuse to reimburse the District for its disbursements. The amount of such future refunds and unreimbursed disbursements, if any, is not expected to be significant. Continuation of the District's grant programs is predicated upon the grantors' satisfaction that the funds provided are being spent as intended and the grantors' intent to continue their programs.

NOTE J – INSURANCE AND RELATED ACTIVITIES

The Graves County School District is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. Each of these risk areas is covered through the purchase of commercial insurance. The District has purchased certain policies which are retrospectively rated which include workers' compensation insurance.

NOTE K – RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. To obtain insurance for workers' compensation, errors and omissions, property and general liability coverage, the District participates in the Kentucky School Boards Insurance Trust Liability Insurance Fund. These public entity risk pools operate as common risk management and insurance programs for all school boards and other tax supported educational agencies of Kentucky who are members of the Kentucky School Boards Association. The District pays an annual premium to each fund for coverage. Contributions to the Workers' Compensation Fund are based on premium rates established by such fund in conjunction with the excess insurance carrier, subject to claims experience modifications and a group discount amount. Dividends may be declared, but are not payable until twenty-four (24) months after the expiration of the self-insurance term. The Liability Insurance Fund pays insurance premiums of the participating members established by the insurance carrier. The Trust can terminate coverage if it is unable to obtain acceptable excess general liability coverage and for any reason by giving ninety (90) days notice. In the event the Trust terminated coverage, any amount remaining in the Fund (after payment of operational and administrative costs and claims for which coverage was provided) would be returned to the members on a pro rata basis.

The District purchases unemployment insurance through the Kentucky School Boards Insurance Trust Unemployment Compensation Fund; however, risk has not been transferred to such fund. In addition, the District continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE L - COBRA

Under COBRA, employers are mandated to notify terminated employees of available continuing insurance coverage. Failure to comply with this requirement may put the District at risk for a substantial loss (contingency).

GRAVES COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED
Year ended June 30, 2012

NOTE M – LEASE AGREEMENT

The District ("Lessor") entered into a lease agreement with the Murray Head Start Program ("Lessee"), whereby the lessee agreed to pay the lessor \$212,000 as an advance for the term of the lease. These funds were received by the District in fiscal year ended June 30, 2004 and were reported as current revenue in the General Fund financial statements and deferred revenue in the government-wide financial statements.

The initial term of the lease agreement began on August 1, 2004, and ended on July 31, 2005. It is automatically renewable for 29 consecutive one year options at no additional cost. Under its terms, the lessor shall provide space including maintenance, utilities, insurance, and custodial services, for all children participating in the Murray Head Start Program. The intent of the parties is for the Murray Head Start Program to conduct activities over the stated 29 year period. Accordingly, rental income is being recognized annually over this period of time.

NOTE N – COMMITMENTS FOR SCHOOL CONSTRUCTION

The District approved an agreement for a new gymnasium floor at Wingo Elementary School. The amount of the contract was \$62,385. As of the balance sheet date, nothing had been paid on this project.

The District also approved agreements to purchase cafeteria equipment and seating for Graves County High School. The amount of the contract for equipment was \$180,652 and for seating was \$55,272. As of the balance sheet date, nothing had been paid on either item.

The District also approved an agreement for renovation of the HVAC system at the Graves County High School. The amount of the engineering contract was \$349,125. As of the balance sheet date, \$27,517 had been completed.

NOTE O – EXCESS OF EXPENDITURES OVER APPROPRIATIONS

The District has no funds with a deficit fund balance. However, the Special Revenue Fund had excess current year expenditures over current year appropriations totaling \$142,662. The General Fund had \$872,107 less in expenditures than appropriations when excluding on-behalf payments of \$6,414,214 which are not required to be budgeted.

NOTE P - TRANSFER OF FUNDS

The following transfers were made during the year:

<u>Type</u>	<u>From Fund</u>	<u>To Fund</u>	<u>Purpose</u>	<u>Amount</u>
Matching	General	Special Revenue	Technology Match	\$ 200,093
Operating	Special Revenue	General Fund	Indirect Cost	17,523
Operating	Capital Outlay	Debt Service	Debt Service	424,291
Operating	FSPK	Debt Service	Debt Service	1,443,467

GRAVES COUNTY SCHOOL DISTRICT
NOTES TO BASIC FINANCIAL STATEMENTS - CONTINUED
Year ended June 30, 2012

NOTE Q – INTERFUND RECEIVABLES AND PAYABLES

Interfund balances at June 30, 2012 consisted of the following individual fund receivables and payables:

	<u>Receivables</u>	<u>Payables</u>
General Fund:		
Agency Fund	\$ 9,922	\$ 385
Agency Fund:		
General Fund	385	9,922

REQUIRED SUPPLEMENTARY INFORMATION

GRAVES COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - GENERAL FUND
For the Year Ended June 30, 2012

	Budgeted Amounts			Variance with Final Budget Favorable (Unfavorable)
	Original	Final	Actual	
REVENUES:				
From Local Sources:				
Taxes:				
Property	\$ 4,310,215	\$ 4,310,215	\$ 4,186,560	\$ (123,655)
Motor Vehicle	850,000	850,000	907,721	57,721
Utilities	1,475,865	1,475,865	1,639,929	164,064
In Lieu of	425,000	425,000	416,791	(8,209)
Tuition	16,000	16,000	3,342	(12,658)
Earnings on Investments	20,000	20,000	11,856	(8,144)
Other local revenues	20,600	20,600	53,717	33,117
Intergovernmental - State	18,993,330	18,993,330	25,098,649	6,105,319
Intergovernmental - Federal	20,000	20,000	98,034	78,034
TOTAL REVENUES	<u>26,131,010</u>	<u>26,131,010</u>	<u>32,416,599</u>	<u>6,285,589</u>
EXPENDITURES:				
Current:				
Instruction	15,406,811	15,474,264	19,397,439	(3,923,175)
Support Services:				
Student	1,355,744	1,355,744	1,951,281	(595,537)
Instructional Staff	801,840	801,840	1,736,655	(934,815)
District Administration	2,388,375	2,320,922	1,331,264	989,658
School Administration	1,436,178	1,436,178	1,721,695	(285,517)
Business	504,395	504,395	654,000	(149,605)
Plant operations and maintenance	3,146,822	3,146,822	3,782,587	(635,765)
Student transportation	2,711,935	2,711,935	2,840,886	(128,951)
Community services	0	0	23,388	(23,388)
Facilities acquisition and construction	200,000	200,000	0	200,000
Debt service	50,554	50,554	50,553	1
TOTAL EXPENDITURES	<u>28,002,654</u>	<u>28,002,654</u>	<u>33,489,748</u>	<u>(5,487,094)</u>
Excess (deficit) of revenues over expenditures	<u>(1,871,644)</u>	<u>(1,871,644)</u>	<u>(1,073,149)</u>	<u>798,495</u>
OTHER FINANCING SOURCES (USES):				
Sale or comp for loss of assets		0	33,296	33,296
Operating transfers in	17,523	17,523	17,523	0
Operating transfers out	(145,080)	(145,080)	(200,093)	(55,013)
TOTAL OTHER FINANCING SOURCES (USES)	<u>(127,557)</u>	<u>(127,557)</u>	<u>(149,274)</u>	<u>(21,717)</u>
Excess (deficit) of revenues and other financing sources over expenditures and other financing uses	<u>(1,999,201)</u>	<u>(1,999,201)</u>	<u>(1,222,423)</u>	<u>776,778</u>
Fund Balance, July 1, 2011	<u>1,999,201</u>	<u>1,999,201</u>	<u>2,182,365</u>	<u>183,164</u>
Fund Balance, June 30, 2012	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 959,942</u>	<u>\$ 959,942</u>

See independent auditor's report and accompanying notes to financial statements

NOTE: The on-behalf payments of \$6,414,214 from the state are included in both revenues and expenditures in the actual column;
however, this amount was not required to be included in the budget.

GRAVES COUNTY SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL - SPECIAL REVENUE FUND
For the Year Ended June 30, 2012

	Budgeted Amounts			Variance with Final Budget Favorable (Unfavorable)
	Original	Final	Actual	
REVENUES:				
From Local Sources:				
Tuition	\$ 0	\$ 0	\$ 18,885	\$ 18,885
Other local revenues	5,242	5,242	5,470	228
Intergovernmental - State	1,339,523	1,333,767	1,342,996	9,229
Intergovernmental - Indirect federal	2,542,370	2,539,231	2,611,399	72,168
Intergovernmental - direct federal	0	0	23,402	23,402
TOTAL REVENUES	3,887,135	3,878,240	4,002,152	123,912
EXPENDITURES:				
Current:				
Instruction	2,866,458	2,900,396	2,870,767	29,629
Support Services:				
Student support services	122,742	122,742	107,662	15,080
Instructional Staff	537,313	537,313	603,877	(66,564)
District administration	0	0	1,470	(1,470)
Plant operations and maintenance	0	0	124,009	(124,009)
Community service activities	488,179	480,139	476,937	3,202
TOTAL EXPENDITURES	4,014,692	4,040,590	4,184,722	(144,132)
Excess (deficit) of revenues over expenditures	(127,557)	(162,350)	(182,570)	(20,220)
OTHER FINANCING SOURCES (USES):				
Operating transfers in	145,080	179,873	200,093	20,220
Operating transfers out	(17,523)	(17,523)	(17,523)	0
TOTAL OTHER FINANCING SOURCES (USES)	127,557	162,350	182,570	20,220
Excess (deficit) of revenues and other financing sources over expenditures and other financing uses	0	0	0	0
Fund Balance, July 1, 2011	0	0	0	0
Fund Balance, June 30, 2012	\$ 0	\$ 0	\$ 0	\$ 0

See independent auditor's report and accompanying notes to financial statements

OTHER SUPPLEMENTARY INFORMATION

GRAVES COUNTY SCHOOL DISTRICT
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2012

	SEEK Capital Outlay Fund	FSPK Fund	Debt Service Fund	Total Nonmajor Governmental Funds
ASSETS AND RESOURCES:				
Cash and cash equivalents	\$ 0	\$ 68,182	\$ 0	\$ 68,182
Accounts receivable				
Intergovernmental - direct federal	0	0	13,819	13,819
TOTAL ASSETS AND RESOURCES	\$ 0	\$ 68,182	\$ 13,819	\$ 82,001
LIABILITIES AND FUND BALANCE:				
LIABILITIES:				
Accounts payable	\$ 0	\$ 0	\$ 0	\$ 0
TOTAL LIABILITIES	0	0	0	0
EQUITY AND FUND BALANCES:				
Restricted:				
Capital projects funds	0	68,182	0	68,182
Debt service	0	0	13,819	13,819
TOTAL FUND BALANCES	0	68,182	13,819	82,001
TOTAL LIABILITIES AND FUND BALANCES	\$ 0	\$ 68,182	\$ 13,819	\$ 82,001

See independent auditor's report and accompanying notes to financial statements

GRAVES COUNTY SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended June 30, 2012

	SEEK Capital Outlay Fund	FSPK Fund	Debt Service Fund	Total Nonmajor Governmental Funds
REVENUES:				
From Local Sources:				
Taxes:				
Property	\$ 0	\$ 718,444	\$ 0	\$ 718,444
Intergovernmental - State	424,291	793,205	957,602	2,175,098
Intergovernmental - direct federal	0	0	167,961	167,961
TOTAL REVENUES	<u>424,291</u>	<u>1,511,649</u>	<u>1,125,563</u>	<u>3,061,503</u>
EXPENDITURES:				
Facilities acquisition and construction	0	0	0	0
Debt service	0	0	3,091,570	3,091,570
TOTAL EXPENDITURES	<u>0</u>	<u>0</u>	<u>3,091,570</u>	<u>3,091,570</u>
Excess (deficit) of revenues over expenditures	<u>424,291</u>	<u>1,511,649</u>	<u>(1,966,007)</u>	<u>(30,067)</u>
OTHER FINANCING SOURCES (USES):				
Proceeds of revenue refunding bonds	0	0	10,965,000	10,965,000
Payment to refunded bond escrow agent	0	0	(10,802,872)	(10,802,872)
Payment of bond issue costs	0	0	(75,460)	(75,460)
Discounts on bonds sold	0	0	(86,108)	(86,108)
Operating transfers in	0	0	1,867,758	1,867,758
Operating transfers out	<u>(424,291)</u>	<u>(1,443,467)</u>	<u>0</u>	<u>(1,867,758)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>(424,291)</u>	<u>(1,443,467)</u>	<u>1,868,318</u>	<u>560</u>
Excess (deficit) of revenues and other financing sources over expenditures and other financing uses	0	68,182	(97,689)	(29,507)
Fund Balance, July 1, 2011	<u>0</u>	<u>0</u>	<u>111,508</u>	<u>111,508</u>
Fund Balance, June 30, 2012	<u>\$ 0</u>	<u>\$ 68,182</u>	<u>\$ 13,819</u>	<u>\$ 82,001</u>

See independent auditor's report and accompanying notes to financial statements

GRAVES COUNTY SCHOOL DISTRICT
**COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES**
DEBT SERVICE FUNDS
For the Year Ended June 30, 2012

	2001 BONDS FUND	2002 BONDS FUND	2003 BONDS FUND
REVENUES:			
Intergovernmental - State	\$ 193,282	\$ 0	\$ 66,624
Build America Bond refund	0	0	0
	<u>193,282</u>	<u>0</u>	<u>66,624</u>
TOTAL REVENUES			
EXPENDITURES:			
Debt Service:			
Principal	640,000	60,000	725,000
Interest	103,810	8,313	75,656
	<u>743,810</u>	<u>68,313</u>	<u>800,656</u>
TOTAL EXPENDITURES			
Excess (deficit) of revenues over expenditures	<u>(550,528)</u>	<u>(68,313)</u>	<u>(734,032)</u>
OTHER FINANCING SOURCES (USES):			
Proceeds of revenue refunding bonds	0	0	0
Payment to refunded bond escrow agent	0	0	0
Payment of bond issue costs	0	0	0
Discounts on bonds sold	0	0	0
Operating transfers in	550,528	68,313	734,032
	<u>550,528</u>	<u>68,313</u>	<u>734,032</u>
TOTAL OTHER FINANCING SOURCES (USES)			
Excess (deficit) of revenues and other financing sources over expenditures and other financing uses	0	0	0
Fund balance July 1, 2011	<u>0</u>	<u>0</u>	<u>0</u>
Fund balance June 30, 2012	<u><u>\$ 0</u></u>	<u><u>\$ 0</u></u>	<u><u>\$ 0</u></u>

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2006 BONDS FUND	2009R BONDS FUND	2009 BONDS FUND	2011 BONDS FUND	Totals Debt service Fund
\$ 52,493	\$ 194,315	\$ 418,396	\$ 32,492	\$ 957,602
0	0	167,961	0	167,961
52,493	194,315	586,357	32,492	1,125,563
100,000	145,000	225,000	220,000	2,115,000
82,440	49,315	480,443	176,593	976,570
182,440	194,315	705,443	396,593	3,091,570
(129,947)	0	(119,086)	(364,101)	(1,966,007)
0	0	0	10,965,000	10,965,000
0	0	0	(10,802,872)	(10,802,872)
0	0	0	(75,460)	(75,460)
0	0	0	(86,108)	(86,108)
32,452	0	118,892	363,541	1,867,758
32,452	0	118,892	364,101	1,868,318
(97,495)	0	(194)	0	(97,689)
97,495	0	14,013	0	111,508
\$ 0	\$ 0	\$ 13,819	\$ 0	\$ 13,819

GRAVES COUNTY SCHOOL DISTRICT
COMBINING BALANCE SHEET--ALL ACTIVITY FUNDS
June 30, 2012

	Central Elementary	Cuba Elementary	Fancy Farm Elementary	Farmington Elementary	Lowes Elementary
ASSETS:					
Cash and cash equivalents	\$ 27,048	\$ 6,605	\$ 20,604	\$ 13,152	\$ 23,379
Accounts Receivable	0	56	0	0	0
Due from Governmental Funds	0	0	0	0	0
TOTAL ASSETS	\$ 27,048	\$ 6,661	\$ 20,604	\$ 13,152	\$ 23,379
LIABILITIES:					
Accounts Payable	\$ 457	\$ 160	\$ 43	\$ 120	\$ 74
Due to Governmental Funds	0	0	0	0	0
Due to Student Groups	26,591	6,501	20,561	13,032	23,305
TOTAL LIABILITIES	\$ 27,048	\$ 6,661	\$ 20,604	\$ 13,152	\$ 23,379
NET ASSETS HELD IN TRUST	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0

See independent auditor's report and accompanying notes to financial statements

Sedalia Elementary	Symsonia Elementary	Wingo Elementary	Graves County Middle School	Graves County High School	Totals (Memorandum Only)
\$ 3,759	\$ 54,818	\$ 6,492	\$ 33,337	\$ 310,528	\$ 499,722
0	64	0	290	37,703	38,113
0	0	0	0	385	385
<u>\$ 3,759</u>	<u>\$ 54,882</u>	<u>\$ 6,492</u>	<u>\$ 33,627</u>	<u>\$ 348,616</u>	<u>\$ 538,220</u>
\$ 0	\$ 5,062	\$ 0	\$ 880	\$ 6,718	\$ 13,514
0	0	0	0	9,922	9,922
3,759	49,820	6,492	32,747	331,976	514,784
<u>\$ 3,759</u>	<u>\$ 54,882</u>	<u>\$ 6,492</u>	<u>\$ 33,627</u>	<u>\$ 348,616</u>	<u>\$ 538,220</u>
<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

GRAVES COUNTY SCHOOL DISTRICT
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN DUE TO STUDENT GROUPS
ALL ACTIVITY FUNDS
For the Year Ended June 30, 2012

	Central Elementary	Cuba Elementary	Fancy Farm Elementary	Farmington Elementary	Lowes Elementary
REVENUES:					
From local sources:					
Earnings on Investments	\$ 15	\$ 0	\$ 77	\$ 13	\$ 0
Student activities	70,949	18,191	41,165	87,231	58,756
Total Revenues	70,964	18,191	41,242	87,244	58,756
EXPENDITURES					
Student Activities	63,532	19,008	53,347	86,094	54,836
Total expenditures	63,532	19,008	53,347	86,094	54,836
Excess (deficit) of revenues over expenditures	7,432	(817)	(12,105)	1,150	3,920
Due to student groups, July 1, 2011	19,159	7,318	32,666	11,882	19,385
Due to student groups, June 30, 2012	<u>\$ 26,591</u>	<u>\$ 6,501</u>	<u>\$ 20,561</u>	<u>\$ 13,032</u>	<u>\$ 23,305</u>

See independent auditor's report and accompanying notes to financial statements

Sedalia Elementary	Symsonia Elementary	Wingo Elementary	Graves County Middle School	Graves County High School	Totals (Memorandum only)
\$ 7	\$ 27	\$ 5	\$ 21	\$ 320	\$ 485
41,405	53,260	46,347	147,489	1,086,771	1,651,564
41,412	53,287	46,352	147,510	1,087,091	1,652,049
51,103	54,515	46,671	146,975	1,092,442	1,668,523
51,103	54,515	46,671	146,975	1,092,442	1,668,523
(9,691)	(1,228)	(319)	535	(5,351)	(16,474)
13,450	51,048	6,811	32,212	337,327	531,258
\$ 3,759	\$ 49,820	\$ 6,492	\$ 32,747	\$ 331,976	\$ 514,784

GRAVES COUNTY HIGH SCHOOL - ALL FUNDS COMBINED
STATEMENT OF RECEIPTS, DISBURSEMENTS & FUND BALANCE
For the Year Ended June 30, 2012

	Cash Balance			Cash Balance	Accounts	Accounts	Fund Balance
	July 1, 2011	Receipts	Disbursements	June 30, 2012	Receivable	Payable	June 30, 2012
General Administrative	\$ 16,308.20	\$ 18,560.60	\$ 33,764.61	\$ 1,104.19	\$ 1,575.01	\$ 2,321.10	\$ 358.10
Credit Recovery	2,740.00	4,215.00	55.00	6,900.00	465.00	0.00	7,365.00
Youth Service Center	131.00	2,400.00	2,200.00	331.00	0.00	0.00	331.00
Graves County Board of Ed	4.83	24,598.61	24,603.44	0.00	0.00	0.00	0.00
School Culture	3,647.76	0.00	143.81	3,503.95	0.00	0.00	3,503.95
School Security	174.09	30.00	189.09	15.00	0.00	0.00	15.00
Counselors Activity	544.33	0.00	4.90	539.43	0.00	0.00	539.43
Senior Fees	3,879.71	7,219.82	10,343.84	755.69	60.00	0.00	815.69
West Nest	337.13	4,606.34	4,453.19	490.28	0.00	0.00	490.28
AP Funds	7,522.74	14,744.00	15,584.89	6,681.85	589.02	1,311.84	5,959.03
Book Rent	19,345.92	16,881.49	17,861.90	18,365.51	126.19	2,037.50	16,454.20
Lost & Damaged Books	2,121.57	739.23	65.40	2,795.40	42.18	0.00	2,837.58
Testing Fees	20.26	24,725.00	21,395.00	3,350.26	0.00	0.00	3,350.26
Science - Field Trips	130.41	96.00	116.82	109.59	0.00	0.00	109.59
Language Arts - Field	331.48	1,247.65	1,373.96	205.17	0.00	0.00	205.17
Calculator Rental	8,509.25	4,593.00	4,121.01	8,981.24	110.00	0.00	9,091.24
Senior Focus - Field Trips	183.86	814.10	598.96	399.00	0.00	0.00	399.00
FAHS Activity Fund	83.02	526.10	589.79	19.33	0.00	0.00	19.33
Student Concessions	62,050.33	28,248.50	24,057.35	66,241.48	0.00	7,800.00	58,441.48
Staff Concessions	8,275.84	5,958.10	3,473.35	10,760.59	13,500.00	38.10	24,222.49
General (Fees)	1,152.86	56,760.33	55,951.75	1,961.44	352.20	0.00	2,313.64
Bank Charges	5,882.29	313.24	334.17	5,861.36	25.00	0.00	5,886.36
Bingo	0.33	0.00	0.00	0.33	0.00	0.00	0.33
Performing Arts Center	3,816.91	5,732.50	5,636.09	3,913.32	0.00	0.00	3,913.32
Performing Arts - Key	4,000.00	0.00	4,000.00	0.00	0.00	0.00	0.00
Athletic Reserves	870.98	2,946.24	0.00	3,817.22	0.00	0.00	3,817.22
General Athletics	0.00	12,386.59	12,386.59	0.00	0.00	0.00	0.00
Tournament Account	0.00	57,312.83	57,312.83	0.00	0.00	0.00	0.00
Sports Revenue	0.00	82,317.15	82,317.15	0.00	0.00	0.00	0.00
Special Projects	0.00	125,685.40	125,685.40	0.00	19,222.00	0.00	19,222.00
Personal Seat License	3,700.00	240.00	2,500.00	1,440.00	0.00	0.00	1,440.00
Baseball	260.00	32,900.47	29,518.26	3,642.21	0.00	0.00	3,642.21
Boys Basketball	1,200.67	34,281.90	34,518.86	963.71	0.00	0.00	963.71
Elementary Basketball	15,189.42	41,211.67	56,401.09	0.00	0.00	0.00	0.00
Girls Basketball	2,895.06	29,425.37	31,866.52	453.91	0.00	0.00	453.91
Cheerleaders	3,830.53	65,702.44	61,311.25	8,221.72	0.00	0.00	8,221.72
Cross Country	0.00	8,387.01	6,997.98	1,389.03	0.00	0.00	1,389.03
Feds	635.35	3,820.06	4,250.27	205.14	0.00	0.00	205.14
Football	2,538.30	42,427.58	44,535.40	430.48	0.00	0.00	430.48
Football (Elem/Mid)	6,476.14	29,947.08	29,910.83	6,512.39	0.00	0.00	6,512.39
Golf	4,133.91	8,931.17	8,027.46	5,037.62	0.00	0.00	5,037.62
Girls Soccer	4,615.81	7,823.10	8,961.77	3,477.14	47.80	47.80	3,477.14
Boys Soccer	7,312.45	11,053.08	11,622.55	6,742.98	47.79	196.79	6,593.98
Softball	1,043.97	27,393.83	25,008.12	3,429.68	0.00	395.76	3,033.92
Swim Team	1,692.62	2,579.06	3,609.21	662.47	0.00	0.00	662.47
Tennis	3,029.59	4,368.19	5,206.30	2,191.48	0.00	0.00	2,191.48
Track	0.00	16,708.98	13,927.99	2,780.99	0.00	0.00	2,780.99
Bowling	700.00	11,232.62	9,621.15	2,311.47	0.00	0.00	2,311.47
Volleyball	4,478.61	27,052.99	26,089.14	5,442.46	0.00	0.00	5,442.46
Wrestling	0.00	10,599.33	10,251.69	347.64	0.00	295.00	52.64
Academic Team	0.00	402.70	331.83	70.87	0.00	0.00	70.87
Agape Club	1,077.43	710.00	1,398.36	389.07	0.00	0.00	389.07
Beta Club	1,659.37	2,207.73	2,957.67	909.43	0.00	0.00	909.43
Bookstore	13,638.71	19,854.86	21,109.84	12,383.73	0.00	0.00	12,383.73
Drama	3,967.90	37,084.75	40,467.87	584.78	469.00	0.00	1,053.78
JKG	1,733.76	0.00	30.00	1,703.76	0.00	0.00	1,703.76
Calculus Club	156.05	0.00	0.00	156.05	0.00	0.00	156.05
FBLA	0.00	12,927.84	12,302.50	625.34	0.00	135.00	490.34
DECA	2,538.76	11,963.13	14,097.69	404.20	300.00	0.00	704.20
FCA	315.99	455.00	504.51	266.48	0.00	80.31	186.17
Chess Club	143.59	231.00	222.38	152.21	0.00	0.00	152.21
Subtotals	241,029.09	1,005,580.76	1,026,178.78	220,431.07	36,931.19	14,659.20	242,703.06

See independent auditor's report and accompanying notes to financial statements

GRAVES COUNTY HIGH SCHOOL - ALL FUNDS COMBINED
STATEMENT OF RECEIPTS, DISBURSEMENTS & FUND BALANCE
For the Year Ended June 30, 2012

	Cash Balance			Cash Balance	Accounts	Accounts	Fund Balance
	July 1, 2011	Receipts	Disbursements	June 30, 2012	Receivable	Payable	June 30, 2012
Curtain Call	\$ 1,958.63	\$ 119.67	\$ 1,076.39	\$ 1,001.91	\$ 0.00	\$ 0.00	\$ 1,001.91
FFA	12,348.94	64,693.00	64,027.08	13,014.86	0.00	228.00	12,786.86
Nat'l Sportsman Scholarship	320.00	0.00	320.00	0.00	0.00	0.00	0.00
Equine	7,825.97	12,176.99	7,825.31	12,177.65	0.00	1,753.12	10,424.53
Future Educators of America	210.31	0.00	147.24	63.07	0.00	0.00	63.07
Purchase Region FFA	3,231.59	0.00	3,231.59	0.00	0.00	0.00	0.00
FCCLA	3,758.41	12,667.97	12,143.83	4,282.55	0.00	0.00	4,282.55
STOP	699.37	0.00	0.00	699.37	0.00	0.00	699.37
Horticulture	11,153.19	18,079.32	28,699.33	533.18	0.00	0.00	533.18
Engineering Club	28.94	601.44	384.54	245.84	0.00	0.00	245.84
Interact Club	1,723.41	2,201.00	844.50	3,079.91	0.00	0.00	3,079.91
Foreign Language - French	297.01	42.65	20.36	319.30	0.00	0.00	319.30
Library	1,429.66	5,681.38	5,840.53	1,270.51	0.00	0.00	1,270.51
Math Club	1.83	0.00	0.00	1.83	0.00	0.00	1.83
Newspaper	2,684.18	5,137.00	6,712.29	1,108.89	0.00	0.00	1,108.89
Pep Club	204.12	3,040.06	3,244.18	0.00	0.00	0.00	0.00
Prom	3,212.91	7,877.00	8,744.96	2,344.95	0.00	0.00	2,344.95
Science Club	802.75	293.18	75.00	1,020.93	0.00	0.00	1,020.93
Forensics (Speech)	2,519.30	4,889.75	5,814.63	1,594.42	0.00	0.00	1,594.42
STLP	315.77	223.82	539.59	0.00	0.00	0.00	0.00
Student Council	240.67	1,372.25	1,612.92	0.00	0.00	0.00	0.00
Spanish Club	578.06	784.85	607.59	755.32	0.00	0.00	755.32
GCHS Special Olympics	52.74	0.00	0.00	52.74	0.00	0.00	52.74
WGCE	4,240.69	16,238.00	17,598.23	2,880.46	0.00	0.00	2,880.46
Yearbook	3,607.07	76,807.20	80,414.27	0.00	620.00	0.00	620.00
Young Democrats	74.15	0.00	0.00	74.15	0.00	0.00	74.15
Young Republicans	211.50	0.00	0.00	211.50	0.00	0.00	211.50
Agriculture	2,810.38	1,438.00	4,125.14	123.24	30.00	0.00	153.24
AP Music Theory Fee	320.00	60.00	0.00	380.00	0.00	0.00	380.00
Art	244.34	3,113.00	2,839.13	518.21	30.00	0.00	548.21
Anatomy & Phisiology	129.42	424.25	13.00	540.67	0.00	0.00	540.67
Astronomy	95.35	0.00	0.00	95.35	0.00	0.00	95.35
Business Principles	324.40	112.50	436.90	0.00	0.00	0.00	0.00
Advance Computer Tech	110.00	645.50	0.00	755.50	0.00	0.00	755.50
Instrument Maintenance	1,413.50	1,144.75	1,556.84	1,001.41	3.00	0.00	1,004.41
Sports & Event Mgt	0.00	3,759.50	3,759.50	0.00	0.00	0.00	0.00
Prin of & Fashion Mkt	282.50	518.00	65.26	735.24	29.00	0.00	764.24
Eng Design/Prin Eng	670.17	1,122.41	613.85	1,178.73	15.00	0.00	1,193.73
GC Publishing	0.00	371.54	309.49	62.05	0.00	0.00	62.05
Band	1,875.92	6,336.48	8,212.40	0.00	0.00	0.00	0.00
Culinary Class	1,543.58	286.00	1,500.00	329.58	0.00	0.00	329.58
Choir Class Fees	101.33	259.00	270.00	90.33	10.00	0.00	100.33
Choral	0.00	3,280.51	2,861.39	419.12	0.00	0.00	419.12
Environmental Science	0.00	262.50	0.00	262.50	0.00	0.00	262.50
Heart of the Purchase	242.96	0.00	0.00	242.96	0.00	0.00	242.96
Home Economics	18.04	9,368.82	8,797.39	589.47	185.00	0.00	774.47
Special Life Skills	27.28	1,656.00	1,037.06	646.22	0.00	0.00	646.22
Social Studies	436.35	0.00	0.00	436.35	0.00	0.00	436.35
Physics	140.00	0.00	0.00	140.00	0.00	0.00	140.00
Industrial Arts	79.01	367.50	418.09	28.42	18.00	0.00	46.42
Language Arts Books	2,260.32	864.00	30.00	3,094.32	37.47	0.00	3,131.79
Photojournalism	1,007.74	0.00	0.00	1,007.74	0.00	0.00	1,007.74
Photography	0.00	167.00	0.00	167.00	0.00	0.00	167.00
Foreign Language Fees	11,817.73	6,970.85	12,457.45	6,331.13	169.00	0.00	6,500.13
Orchestra	3,655.90	6,855.65	5,992.58	4,518.97	0.00	0.00	4,518.97
Science Novels	372.20	0.00	8.99	363.21	10.00	0.00	373.21
Project Lead the Way	347.66	720.00	763.37	304.29	0.00	0.00	304.29
Jr Guard Activity	0.00	2,498.73	2,498.73	0.00	0.00	0.00	0.00
Fishing Club	0.00	785.00	785.00	0.00	0.00	0.00	0.00
Best in the Nest	55.50	122.40	177.90	0.00	0.00	0.00	0.00
Community Service	0.00	1,303.41	0.00	1,303.41	0.00	0.00	1,303.41
Savings	15,066.62	2,631.63	0.00	17,698.25	0.00	0.00	17,698.25
Subtotal	109,179.37	290,371.46	309,453.82	90,097.01	1,156.47	1,981.12	89,272.36
Previous page subtotal	241,029.09	1,005,580.76	1,026,178.78	220,431.07	36,931.19	14,659.20	242,703.06
Less: Interfund Transfers	0.00	(243,954.17)	(243,954.17)	0.00	0.00	0.00	0.00
Total	\$ 350,208.46	\$ 1,051,998.05	\$ 1,091,678.43	\$ 310,528.08	\$ 38,087.66	\$ 16,640.32	\$ 331,975.42

REPORTS REQUIRED BY THE SINGLE AUDIT ACT

GRAVES COUNTY SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2012

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass- Through Grantor's Number	Federal Expenditures
<u>U.S. Department of Education:</u>			
Fund for the Improvement of Education	84.215	5181	\$ 23,402
Passed Through State Dept. of Education:			
Special Education Grants to States	84.027	3810002-11	898,006
Special Education Preschool Grants	84.173	3800002-11	59,318
ARRA - Special Education Grants to States	84.391	4810002-09	(16,225)
Total Special Education Cluster			<u>941,099</u>
Educational Technology State Grants	84.318	3210002-10	13
ARRA - Educational Technology State Grants	84.386	4210002-09	4,678
Total Educational Technology State Grants Cluster			<u>4,691</u>
Title I Grants to Local Educational Agencies	84.010	3100002-10 & 11, & 3100102-11	1,179,452
ARRA - Education for Homeless Children and Youth	84.387	4990002-09	663
Education Jobs Fund	84.410	EJOB00-10	15,098
Improving Teacher Quality State Grants	84.367	3230002-11, 3230003-10, & 3300002-11	200,269
Career & Technical Education Basic Grants to States	84.048	4621032-09, 4621110-10 & 4621132-10, 4621232-11	37,656
Rehabilitation Services - Vocational Rehabilitation Grants to States	84.126	5521112-11, 55211PY-11, 5521212-12	9,450
English Language Acquisition State Grants	84.365	3300002-11	15,597
Passed through State Department of Juvenile Justice:			
Title I State Agency Program for Neglected and Delinquent Children	84.013	3131, 3131T, 3132, 3132T	19,498
TOTAL U.S. DEPARTMENT OF EDUCATION			<u>2,446,875</u>
<u>U.S. Department of Health & Human Services:</u>			
Passed through Murray Board of Education:			
Head Start	93.600	6554	124,009
TOTAL U.S. DEPARTMENT OF HEALTH & HUMAN SERVICES			<u>124,009</u>
<u>Corporation for National and Community Service:</u>			
Passed Through State Dept. of Education:			
Learn and Serve America - School & Community Based Programs	94.004	1000001-10	3,119
TOTAL CORPORATION FOR NATIONAL AND COMMUNITY SERVICE			<u>3,119</u>
<u>U.S. Department of Labor:</u>			
Passed Through State Dept. of Education:			
WIA Adult Program	17.258	273SR10-10	21,373
Passed Through West KY Workforce:			
WIA Youth Activities	17.259	5982	52,000
Total WIA Cluster			<u>73,373</u>
TOTAL U.S. DEPARTMENT OF LABOR			<u>73,373</u>
<u>U.S. Department of Agriculture:</u>			
Passed through State Dept. of Education:			
National School Lunch Program - cash	10.555	7750002-11/12	1,073,757
National School Lunch Program - donated foods (Note B)	10.555	7750002-11/12	137,677
School Breakfast Program	10.553	7760005-11/12	573,045
Summer Food Service Program for Children	10.559	7740023-11/12 & 7690024-11/12	55,868
Total Child Nutrition Cluster			<u>1,840,347</u>
Fresh Fruit and Vegetable Program	10.582	7720012-11 & 12	16,448
TOTAL U.S. DEPARTMENT OF AGRICULTURE			<u>1,856,795</u>
TOTAL FEDERAL ASSISTANCE			<u>\$ 4,504,171</u>

See accompanying notes to schedule
of expenditures of federal awards

GRAVES COUNTY SCHOOL DISTRICT

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the year ended June 30, 2012

NOTE A – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Graves County School District and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

NOTE B – FOOD DISTRIBUTION

Nonmonetary assistance is reported in the schedule at the fair value of the commodities disbursed. Per USDA instructions, commodities expended are recorded at an amount equal to commodities received and the inventory at June 30, 2012 is combined with purchased food inventory.

NOTE C – RECONCILIATION OF SCHEDULE TO FINANCIAL STATEMENTS

The following is a reconciliation of the total in the schedule of expenditures of federal awards to the total federal revenue included in the statement of revenues, expenditures and changes in fund balances – governmental funds on page 12 of the audit report and in the statement of revenues, expenses, and changes in net assets – proprietary funds on page 15 of the audit report:

Total intergovernmental – indirect federal from page 12	\$	2,709,433
Total intergovernmental – direct federal from page 12		191,363
Total federal grants from page 15		1,719,118
Donated commodities from page 15		137,677
Less: Build America Bond rebate		(167,961)
Less: Medicaid funds received		(98,034)
Plus: Amount of federal funds coded as a negative expenditure		<u>12,575</u>
Total on page 44	\$	<u><u>4,504,171</u></u>

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Kentucky State Committee for School District Audits
and Members of the Board of Education
Graves County School District
Mayfield, Kentucky

I have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Graves County School District as of and for the year ended June 30, 2012, which collectively comprise the Graves County School District's basic financial statements and have issued my report thereon dated November 9, 2012. I conducted my audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the provisions of *Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*, and the audit requirements prescribed by the Kentucky State Committee for School District Audits in *Appendix I to the Independent Auditor's Contract – General Audit Requirements*, *Appendix II to the Independent Auditor's Contract – State Audit Requirements*, *Appendix III to the Independent Auditor's Contract – Audit Extension Request* and *Appendix IV to the Independent Auditor's Contract – Instructions for Submission of the Audit Report*.

Internal Control Over Financial Reporting

Management of the Graves County School District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing my audit, I considered the Graves County School District's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Graves County School District's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the Graves County School District's internal control over financial reporting.

My consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, I identified certain deficiencies in internal control over financial reporting that I consider to be significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. I consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs identified as reference number 2012-01 to be a material weakness.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. I consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as reference number 2012-02 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Graves County School District's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed an instance of noncompliance that is required to be reported under Government Auditing Standards and which is described in the accompanying Schedule of Findings and Questioned Costs as item 2012-3. In addition, the results of my tests disclosed no instances of material noncompliance of specific state statutes or regulations identified in Appendix II to the Independent Auditor's Contract – State Audit Requirements.

I noted certain other matters that I reported to management of the Graves County School District in a separate letter dated November 9, 2012.

Graves County School District's response to the findings identified in my audit is described in the accompanying Schedule of Findings and Questioned Costs. I did not audit Graves County School District's response and, accordingly, I express no opinion on it.

This report is intended solely for the information and use of members of the Kentucky State Committee for School District Audits, the members of the Board of Education of Graves County School District, the Kentucky Department of Education, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

A handwritten signature in dark ink, appearing to read "Kim Glavin". The signature is written in a cursive, somewhat stylized font.

Benton, Kentucky
November 9, 2012

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD
HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Kentucky State Committee for School District Audits
and Members of the Board of Education
Graves County School District
Mayfield, Kentucky

Compliance

I have audited Graves County School District's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on each of Graves County School District's major federal programs for the year ended June 30, 2012. Graves County School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Graves County School District's management. My responsibility is to express an opinion on Graves County School District's compliance based on my audit.

I conducted my audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the audit requirements prescribed by the Kentucky State Committee for School District Audits in *Appendix I to the Independent Auditor's Contract – General Audit Requirements*, *Appendix II to the Independent Auditor's Contract – State Audit Requirements*, *Appendix III to the Independent Auditor's Contract – Audit Extension Request* and *Appendix IV to the Independent Auditor's Contract – Instructions for Submission of the Audit Report*. Those standards and OMB Circular A-133 require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Graves County School District's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances. I believe that my audit provides a reasonable basis for my opinion. My audit does not provide a legal determination of Graves County School District's compliance with those requirements.

As described in item 2012-05 in the accompanying Schedule of Findings and Questioned Costs, the Graves County School District did not comply with requirements regarding verification of free and reduced price applications that are applicable to its Child Nutrition Cluster. Compliance with such requirements is necessary, in my opinion, for the Graves County School District to comply with the requirements applicable to that program.

In my opinion, except for the noncompliance described in the preceding paragraph, the Graves County School District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012.

Internal Control Over Compliance

Management of Graves County School District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing my audit, I considered Graves County School District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing my opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, I do not express an opinion on the effectiveness of the Graves County School District's internal control over compliance.

My consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, I identified a certain deficiency in internal control over compliance that I consider to be a material weakness.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. I consider the deficiency in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 2012-04 to be a material weakness.

The Graves County School District's responses to the findings identified in my audit are described in the accompanying Schedule of Findings and Questioned Costs. I did not audit the Graves County School District's responses and, accordingly, I express no opinion on the responses.

This report is intended solely for the information and use of members of the Kentucky State Committee for School District Audits, the members of the Board of Education of Graves County School District, the Kentucky Department of Education, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.



Benton, Kentucky
November 9, 2012

**GRAVES COUNTY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2012**

I. SUMMARY OF AUDITOR'S RESULTS:

1. The auditor's report expresses an unqualified opinion on the financial statements of the Graves County School District.
2. Two significant deficiencies in internal control over financial reporting were disclosed during the audit of the financial statements and are reported in the Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards. Reference number 2012-01 is also reported as a material weakness.
3. One instance of noncompliance material to the financial statements were disclosed during the audit of the financial statements and is reported in the Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards.
4. One significant deficiency in internal control over a major federal award program was disclosed during the audit and is reported in the Independent Auditor's Report on Compliance With Requirements that Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133. This significant deficiency is also reported as a material weakness.
5. The auditor's report on compliance for the major federal award programs for Graves County School District expresses an unqualified opinion on all major federal programs except for the Child Nutrition Cluster, which was qualified.
6. There was one audit finding that is required to be reported in accordance with Section 510(a) of OMB Circular A-133 relative to the major federal award programs for Graves County School District as reported in Part III of this schedule.
7. The programs tested as major programs included:

<u>Name of Federal Program or Cluster</u>	<u>CFDA Number</u>
Title I Grants to Local Educational Agencies	84.010
Child Nutrition Cluster:	
National School Lunch Program	10.555
School Breakfast Program	10.553
Summer Food Service Program for Children	10.559

8. The threshold for distinguishing Types A and B programs was \$300,000.
9. Graves County School District did not qualify as a low-risk auditee.

GRAVES COUNTY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
For the Year Ended June 30, 2012

II. FINDINGS – FINANCIAL STATEMENT AUDIT

Significant Deficiency in Internal Control over Financial Reporting, which is also a Material Weakness:

2012-01. School Food Service Reimbursement Requests

Statement of Finding (Condition): When we examined the reimbursement report that was received from the state for the month of April, we noted that the March and April reimbursement amounts were on the same report. We searched for a copy of the March printout from the SCN Online Reporting System to determine the date the reimbursement request was filed; however, there was no printout found. On the printout for the month of April, an error code was noted, with the description “prior month claim is unpaid”. It appears that the March request was not filed on a timely basis.

Criteria: Claims are due fifteen days after the close of the month.

Context: One claim was filed late out of ten that were filed during the fiscal year.

Cause and Effect: The food service director failed to file the report on a timely basis. No one was assigned the responsibility of reviewing the printout after filing the online reports. Since USDA regulations only allow SCN to pay one late claim during any three year period, another late claim during the next three years could result in payments being denied, which would be a material loss of revenue for the District. The amount of the March reimbursement was \$192,781.

Recommendation: Procedures should be in place to make certain that reimbursement requests are filed on a timely basis. When information is entered into an online submission, a printout of the submission should always be printed and retained. After submitting the report and printing a copy, the food service director should give the copy to the administrative assistant to compare amounts submitted with amounts on the manual input sheet prior to filing.

Response: The submission is due on the 15th of the month. On the last day of the month, the new food service director and administrative assistant both pull reports from LunchBox and Infinite Campus for the month just completed. By the 10th of each month, the two are preparing the submission report together. The CNIPS reports are printed for each school, as well as the final claim report. After the reports are submitted, a paper copy of reports are retained and filed by month, and an additional copy is given to the accounts payable clerk.

**GRAVES COUNTY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
For the Year Ended June 30, 2012**

II. FINDINGS – FINANCIAL STATEMENT AUDIT (CONTINUED)

Significant Deficiency in Internal Control over Financial Reporting, which is not a Material Weakness:

2012-02. School Food Service Revenue

Statement of Finding (Condition): When we were reviewing outstanding checks in the school activity funds, we noted that three schools had checks written to the Graves County Food Service account from April and May that had not cleared. We asked the food service administrative assistant if she knew why the checks were never deposited into the food service account. She searched the office and discovered four checks that totaled \$1,434.15 from the three schools in the desk. These checks were immediately deposited. During October, the new food service director, administrative assistant and finance officer discovered several more checks and cash from other sources for catering services, many of which were six months old.

Criteria: Effective internal controls require timely deposits.

Context: The dollar amount of these late deposits totaled \$1,434.15, whereas the total amount received from special events totaled approximately \$29,000 for the fiscal year.

Cause and Effect: The food service director received checks and cash for catering events and placed them in her desk instead of giving them to someone else to make a deposit. Since the funds included cash, as well as checks, misappropriation of funds could occur.

Recommendation: We recommend that catering events be listed on a sheet as they are scheduled. Invoices to purchase food and supplies for the events should clearly be marked with the name of the catering job. Bills should be sent to the person or organization that booked the event as soon as possible. When a check is received, the bill should be marked "paid" with the date and check number, it should be noted on the listing of events, and it should be listed on a deposit recap sheet with other revenues to reconcile to the deposit for the day.

Response: New accounting procedures have been developed for the catering services. Those services will be receipted and expensed in separate accounts from other food-service activities. When events are scheduled, they will be documented in Excel spreadsheets which will include date of the event, details of the service provided, charges quoted, and the date payment is received. Separate invoicing will occur for catering activities and will be sent within two weeks, in order to secure all expenses for the event, while billing in a timely fashion. The new director and administrative assistant are aware of Red Book requirements that funds be deposited in a timely fashion, and copies of bills paid, along with check numbers and date received, will be retained for documentation.

Noncompliance Material to the Financial Statements

2012-03. Verification of Free and Reduced Price Applications

The information listed in reference number 2012-04 in the Findings – Major Federal Award Program Audit in Part III below is also considered to be a material noncompliance in relation to the financial statements.

**GRAVES COUNTY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
For the Year Ended June 30, 2012**

III. FINDINGS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

Significant Deficiency in Internal Control over a Major Federal Program, which is also a Material Weakness:

2012-04. Verification of Free and Reduced Price Applications

U.S. Department of Agriculture; Child Nutrition Cluster – CFDA Numbers 10.555 and 10.553; Passed through the Kentucky Department of Education

Statement of Finding (Condition): We examined documentation related to the sample of free and reduced meal applications selected as a part of the verification of income process, which was performed by the food service director. We noted that although information was requested from the applicants selected for testing, some documentation was not received and no follow up was done to see that all income was verified. Also, some applicants should have been changed to a different status, but were not.

Criteria: USDA guidelines require the local educational agency to determine if the household has submitted adequate information to complete its individual verification activity, with at least one follow-up attempt if needed. Proper steps should be taken to notify households and make changes to the computer for adverse action.

Context: Of the nine applications that were selected for verification, five had income listed from household members for which no evidence of income was received. Based on documentation received for two other applications of the nine verified, the status should have been changed from free to reduced.

Cause and Effect: The food service director did not follow through with the verification process by determining if all evidence was received and if income still fell within the income guidelines.

Questioned Costs: Based on estimated number of days remaining in the school year after the verification process, assuming that affected students ate both breakfast and lunch at school, and assuming that households without complete documentation would be changed to paid status, the excess amount received of federal funds would be approximately \$3,700.

Recommendation: We recommend that one person prepare the calculations for the verification process and a second person follow up on any unverified amounts listed on the application, recalculate the income, and verify that the status is changed on the computer.

Response: In analysis of previous procedures, it was discovered that the previous director pulled the verification data on October 1 but failed to test the verification income status against applications. After discussion with the director and administrative assistant, the data was pulled on October 1 together, and letters were sent to the selected sample pool from LunchBox requesting proof of income. The director and assistant have made follow-up phone calls – with documentation of when called – to all families who have not returned the appropriate verification. Once all income data is returned, the director will verify income listed on applications and change any necessary meal status. After cross-checking between the two, verification data will be reported to the state by November 15.

**GRAVES COUNTY SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (Continued)
For the Year Ended June 30, 2012**

III. FINDINGS – MAJOR FEDERAL AWARD PROGRAMS AUDIT (CONTINUED)

Noncompliance Material to a Major Federal Program:

2012-05. Verification of Free and Reduced Price Applications
U.S. Department of Agriculture; Child Nutrition Cluster – CFDA Numbers 10.555 and 10.553; Passed through the Kentucky Department of Education

Statement of Finding (Condition): As also noted in finding 2012-04, we examined documentation related to the sample of free and reduced meal applications selected as a part of the verification of income process, which was performed by the food service director. We noted that although information was requested from the applicants selected for testing, some documentation was not received and no follow up was done to see that all income was verified. Also, some applicants should have been changed to a different status, but were not.

Criteria: USDA guidelines require the local educational agency to determine if the household has submitted adequate information to complete its individual verification activity, with at least one follow-up attempt if needed. Proper steps should be taken to notify households and make changes to the computer for adverse action.

Context: Of the nine applications that were selected for verification, five had income listed from household members for which no evidence of income was received. Based on documentation received for two other applications of the nine verified, the status should have been changed from free to reduced. There were thirteen students listed on the seven applications that were not verified using correct procedures.

Cause and Effect: The food service director did not follow through with the verification process by determining if all evidence was received and if income still fell within the income guidelines.

Questioned Costs: Based on estimated number of days remaining in the school year after the verification process, assuming that affected students ate both breakfast and lunch at school, and assuming that households without complete documentation would be changed to paid status, the excess amount received of federal funds would be approximately \$3,700.

Recommendation: We recommend that one person prepare the calculations for the verification process and a second person follow up on any unverified amounts listed on the application, recalculate the income, and verify that the status is changed on the computer.

Response: In analysis of previous procedures, it was discovered that the previous director pulled the verification data on October 1 but failed to test the verification income status against applications. After discussion with the director and administrative assistant, the data was pulled on October 1 together, and letters were sent to the selected sample pool from LunchBox requesting proof of income. The director and assistant have made follow-up phone calls – with documentation of when called – to all families who have not returned the appropriate verification. Once all income data is returned, the director will verify income listed on applications and change any necessary meal status. After cross-checking between the two, verification data will be reported to the state by November 15.

**GRAVES COUNTY SCHOOL DISTRICT
SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
June 30, 2012**

There were no prior year audit findings reported in the Schedule of Findings and Questioned Costs for either the Financial Statement Audit or the Major Federal Award Programs Audit.

MANAGEMENT LETTER POINTS

Kentucky State Committee for School District Audits
and Members of the Board of Education of
Graves County School District
Mayfield, Kentucky

I have audited the financial statements of the Graves County School District for the year ended June 30, 2012, and have issued my report thereon dated November 9, 2012. In planning and performing my audit of the financial statements of Graves County School District, I considered the District's internal control to determine my auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control.

However, during my audit, I became aware of several matters that are opportunities for strengthening internal controls or operating efficiency. These comments and recommendations have been discussed with the appropriate members of management and are intended to help the District comply with applicable laws and regulations, improve the internal control, or result in other operational efficiencies. These comments are summarized on the following pages.

This report is intended solely for the Board, management, and others within the organization as deemed appropriate.

Respectfully,

A handwritten signature in dark ink, appearing to read "Kim Glavin". The signature is written in a cursive, flowing style.

Benton, Kentucky
November 9, 2012

**GRAVES COUNTY SCHOOL DISTRICT
MANAGEMENT LETTER COMMENTS
June 30, 2012**

UNCORRECTED PRIOR YEAR COMMENTS

School Activity Funds

Graves County High School: In the prior year, we noted money received in excess of \$100 that was not deposited until four days after receipt. As noted in the current year comments, there were several deposits in our test of receipts that were not made on a timely basis.

Also in the prior year, we noted two standard invoices that were not signed by the principal. As noted in the current year comments, there were three standard invoices in our test of disbursements that were not signed by the principal.

CORRECTED PRIOR YEAR COMMENTS

School Activity Funds

- 1) Central Elementary School: In the prior year, we noted one check that was signed by the principal only. Also, the standard invoice for a check that was written to First KY Bank was signed only by the vendor. In the current year test of disbursements, checks were signed by two authorized individuals and standard invoices were signed by appropriate parties.
- 2) Fancy Farm Elementary School: In the prior year, we noted a reimbursement to a parent for items purchased for a football banquet included \$11.39 sales tax. It was also noted that the parent had bought the items without prior approval. In the current year test of disbursements, no sales tax was paid and approvals were obtained by appropriate parties.
- 3) Farmington Elementary School: In the prior year, we noted that amounts received for such items as donut or T-shirt sales were not supported by any other documentation. Also, we noted one check to Wal-Mart that was converted by the vendor electronically; however, the check had no markings, including no amount and appeared to be a blank, signed check in the invoice file. In the current year, we noted improvement in the use of multiple receipt forms. No electronically converted checks were included in our current year test of disbursements; however, no apparently blank signed checks were noted in the monthly files.
- 4) Lowes Elementary: In the prior year, we noted that several F-SA-10 forms were not approved by the transferring fund sponsor. Also, we noted that three checks were electronically converted by three different vendors and the checks were not retained in the file. In the current year, interfund transfer forms were properly signed and electronically converted checks were retained.
- 5) Symsonia Elementary School: In the prior year, we noted one check that was converted electronically by the vendor. While the check was retained in the file, the signature lines were cut off; therefore we could not verify that the check had dual authorized signatures. In the current year, electronically converted checks were retained intact.
- 6) Wingo Elementary: In the prior year, we noted that one reimbursement to the PTO included sales tax of \$11.41. In the current year test of disbursements, no sales tax was paid.
- 7) Graves County Middle School: In the prior year, we noted sales of yearbooks, ballgame concessions, and dance funds received were not supported by documentation such as fundraiser worksheets or multiple receipt forms. In the current year, we noted that the yearbook sponsor had prepared a worksheet to detail the yearbook order and listed the price for each item. Drink break sales were also appropriately documented.

**GRAVES COUNTY SCHOOL DISTRICT
MANAGEMENT LETTER COMMENTS
June 30, 2012**

CURRENT YEAR COMMENTS

School Activity Funds

- 1) Central Elementary School: We noted that none of the interfund transfer forms were signed for approval by either the remitting fund sponsor or the principal. According to the current Red Book, page 8, "the sponsor of the remitting (paying) activity account and the principal shall sign the Transfer Form". When there is no sponsor for the remitting activity account, we recommend that the activity fund treasurer initial and indicate that there is no sponsor for the activity; however, the principal should still sign the form to indicate approval.

In our test of the March inventory control worksheet, we noted that there was a shortage of \$149.05 that was not explained. When there is a significant shortage or overage, the amount should be explained by noting whether items were given away, damaged, or some other reason.

Response – We have discussed these issues with the school principal and treasurer and will make every effort to insure that proper Red Book procedures are followed, specifically requiring the principal to sign inter-fund transfer forms to indicate approval. We will also work to develop procedures for better control of inventory that will allow explanations of significant shortages.

- 2) Sedalia Elementary: In our test of cash receipts, we noted that deposits are not being supported by multiple receipt forms. When teachers collect funds from students for field trips, T-shirt sales, or other items where the same amount is collected from each student, a multiple receipt form should be completed. When the funds are given to the activity fund treasurer, a copy of the multiple receipt form should accompany the money to properly document the amount collected. The treasurer should retain the copy of the form with the cash receipt ticket stub.

Response – We have discussed these issues with the principal and treasurer and will make every effort to insure that Red Book procedures are followed and that funds submitted to the treasurer will be supported by appropriate documentation from the activity sponsor and such documentation maintained by the treasurer.

- 3) Wingo Elementary: In our test of disbursements and inventory control worksheets, we noted that detailed invoices were not retained from the beverage vendor. Payments were made from a statement that listed the total of each invoice. Without the detailed invoices, we could not verify the number of items delivered as listed on the inventory control worksheets. We recommend that detailed invoices be attached to the statement prior to making payment.

Response – The activity fund treasurer stated that she was told she was not required to keep the detailed invoices. She has started keeping them for the 12-13 school year, as evidenced by a review of the file.

**GRAVES COUNTY SCHOOL DISTRICT
MANAGEMENT LETTER COMMENTS**

June 30, 2012

- 4) Graves County High School: Interfund transfer forms are being signed by the activity fund treasurer instead of the remitting fund sponsor. According to the current Red Book, "the sponsor of the remitting (paying) activity account and the principal shall sign the Transfer Form". When there is no sponsor for the remitting activity account, the activity fund treasurer may initial and indicate that there is no sponsor for the activity

In a random sample of cash receipts, thirteen of twenty-five were not deposited in a timely manner. According to the Red Book, deposits should be made each day, with one exception. When funds are less than \$100, the money may be held until such time as receipts accumulate to \$100 or more. Even in that instance, a deposit should be made at least once per week. The deposits tested were from two to six business days after receipt. We recommend that deposits be made on a timely basis in accordance with Red Book procedures.

In a random sample of disbursements, three standard invoices were not signed by either the principal or the activity fund sponsor. We recommend signatures of both parties be obtained to indicate approval prior to payment in accordance with Red Book procedures.

When testing disbursements in excess of \$1,000, we noted the following items that were not supported by proper documentation:

- Check #49128 for \$2,580 for coaches cards – no approval signature;
- Check #49041 for \$2,000 choreography clinics – no invoice;
- Check #49006 for \$1,096 for shirts – approval on purchase order was only for \$500;
- Check #49157 for \$2,595 for shirts – spent more than approved;
- Check #49088 for \$2,700 for tuition – no invoice or documentation from vendor

All disbursements should be supported by proper documentation, which includes a purchase order prepared and approved by the sponsor and principal, shipping tickets (when applicable) compared to purchase order, initialed and dated by the receiver, and original vendor invoice signed by the person receiving the goods or services (or a standard invoice, when an invoice is not supplied by the vendor). The invoice or standard invoice should be marked "paid" with the check number and date paid. The standard invoice should be approved by the fund sponsor and principal, as well as signed by the vendor to certify the statement is correct.

Response – The principal continued to struggle to secure stable, effective help – who was willing to work without long-term job security – in the school treasurer's position as the school's permanent treasurer entered her second year of leave while being treated for and recovering from cancer. After several months of failing to improve performance as directed by the principal, the treasurer for ten months in fiscal year 2011-12 was released from district employment. With the retirement of another clerical employee, the principal was able to secure a new treasurer – with the promise of employment if the permanent bookkeeper returned – with experience in finance. The principal and the treasurer worked closely to secure proper documentation for all transactions and to fix the issues with delay in deposits of funds. The new treasurer continues to work with district personnel to learn proper Red Book procedures and has been very effective in securing proper documentation for all disbursements and in making deposits in a timely fashion. The district finance officer continues to work with the new treasurer and principal to insure that proper Red Book procedures are utilized for the school level funds.